



## **PILLAR III DISCLOSURES**

According to Directives DI144-2014-15 and DI144-2014-14 of the Cyprus Securities & Exchange Commission for the prudential supervision of investment firms and Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms

**YEAR ENDED 31 DECEMBER 2020**

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**CONTENTS**

Specific References to CRR .....	4
1. Introduction .....	8
1.1. CIF Information .....	8
1.2. Scope of application .....	9
1.3. Pillar III Regulatory framework .....	9
1.3.1. Regulatory framework overview .....	9
1.3.2. Disclosure Policy: Basis and Frequency of Disclosure / Location and verification ...	10
1.4. Risk Management Objectives and Policies .....	11
1.4.1. Risk Management Framework .....	12
1.4.2. Risk Statement .....	12
1.4.3. Risk Culture .....	14
1.4.4. Upcoming Regulatory Changes – IFR & IFD.....	14
1.5. Declaration of the Management Body .....	16
2. Corporate Governance .....	17
2.1. Organisational Structure .....	17
2.2. The Board of Directors .....	17
2.3. Number of Directorships held by members of the Board.....	18
2.4. Policy on Recruitment .....	19
2.5. Policy on Diversity .....	19
2.6. Governance Committees.....	19
2.7. Other Governance Functions .....	20
2.8. Information flow on risk to the management body .....	23
3. Own Funds.....	26
3.1. Tier 1 & Tier 2 Regulatory Capital .....	26
3.2. Main features of Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments.....	27
3.3. Balance Sheet Reconciliation .....	28
4. Compliance with the Regulation and the overall Pillar II Rule.....	29
4.1. Internal Capital .....	29
4.2. Approach to assessing adequacy of Internal Capital .....	29
5. Pillar I Capital Requirements .....	31
5.1. Credit Risk.....	31
5.1.1. Credit Risk Adjustments .....	31
5.1.2. Credit Risk – Risk Weighted Assets .....	32

5.1.3. Credit Risk – Analysis of Average exposures and total amount of exposures after accounting offsets.....	33
5.1.4. Credit Risk – Risk Weighted Assets by Geographical distribution of the exposure classes.....	33
5.1.5. Credit Risk – Distribution of exposures by industry.....	33
5.1.6. Residual maturity broken down by exposure classes.....	34
5.2. Use of ECAIs.....	34
5.3. Market Risk .....	36
5.3.1. Foreign Exchange Risk .....	36
5.3.2. Interest Rate Risk .....	36
5.4. Operational Risk.....	37
5.4.1. Fixed Overheads Requirements .....	38
6. Other Risks .....	40
6.1. Concentration Risk .....	40
6.2. Reputation Risk .....	40
6.3. Strategic Risk.....	41
6.4. Business Risk.....	41
6.5. Capital Risk Management .....	41
6.6. Regulatory Risk .....	41
6.7. Legal and Compliance Risk.....	42
6.8. IT Risk .....	42
6.9. Risk Reporting .....	43
6.10. Liquidity Risk.....	43
6.11. Conduct Risk .....	43
7. Remuneration policy.....	44
7.1. Remuneration System.....	44
7.2. Link between the pay and performance.....	46
7.3. Remuneration of Senior Management Personnel and Directors .....	47

**SPECIFIC REFERENCES TO CRR**

<b>Scope of disclosure requirements</b>		<b>Section</b>
<b>431(1)</b>	Requirement to publish Pillar III disclosures	<a href="#">1.2</a>
<b>431(2)</b>	Disclosures regarding operational risk.	<a href="#">5.4</a>
<b>431(3)</b>	Institution shall adopt a formal policy to comply with the disclosures and have policies for assessing their appropriateness, including their verification and frequency	<a href="#">1.3.2</a>
<b>Non - material, proprietary or confidential information</b>		<b>Section</b>
<b>432</b>	The policy on diversity with regard to selection of members of the management body	<a href="#">2.5</a>
	Own Funds	<a href="#">3</a>
	Remuneration policy	<a href="#">7</a>
<b>Frequency of disclosure</b>		<b>Section</b>
<b>433</b>	Disclosures must be published at least on an annual basis, in conjunction with the date of publication of the financial statements	<a href="#">1.3.2</a>
<b>Means of disclosure</b>		<b>Section</b>
<b>434(1)</b>	Determine the appropriate medium, location and means to publish the disclosures, preferably all disclosures in one medium	<a href="#">1.3.2</a>
<b>434(2)</b>	Equivalent disclosures made under accounting, listing or other requirements may be deemed to constitute compliance with Pillar III	Cross-references to accounting and other disclosures are indicated in the report
<b>Risk management objectives and policies</b>		<b>Section</b>
<b>435(1)</b>	Disclosure of risk management objectives and policies for each category of risk including	<a href="#">1.4</a>
<b>435(1) (a)</b>	strategies and processes	<a href="#">1.4.1</a>
<b>435(1) (b)</b>	the structure and organisational structure of the relevant risk management function	<a href="#">1.4.1</a>
<b>435(1) (c)</b>	the scope and nature of risk reporting and measurement systems	<a href="#">1.4.1</a>
<b>435(1) (e)</b>	Declaration approved by the management body on the adequacy of risk management arrangements	<a href="#">1.5</a>
<b>435(1) (f)</b>	Concise risk statement approved by the management body	<a href="#">1.4.2</a>
<b>435(2)</b>	Disclosure at least annually, regarding governance arrangements.	<a href="#">2</a>
<b>435(2) (a)</b>	Number of directorships held by members of the management body	<a href="#">2.3</a>

435(2) (b)	Recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise	<a href="#">2.4</a>
435(2) (c)	Policy on diversity of management body, its objectives and targets and the extent to which these have been achieved	<a href="#">2.5</a>
435(2) (d)	Whether a separate risk committee has been set up, and number of meetings in the year.	<a href="#">2.6</a>
435(2) (e)	Description of information flow on risk to the management body	<a href="#">2.8</a>
<b>Scope of application</b>		<b>Section</b>
436(a)	Name of institution.	<a href="#">1.1</a>
436 (b)	Difference in the basis of consolidation for accounting and prudential purposes, describing entities that are:	
436 (b) (i)	• Fully consolidated;	
436 (b) (ii)	• Proportionally consolidated;	<a href="#">1.2</a>
436 (b) (iii)	• Deducted from own funds;	
436 (b) (iv)	• Neither consolidated nor deducted.	
<b>Own Funds - Requirements regarding the own funds table</b>		<b>Section</b>
437 (1) (a)	A full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution;	<a href="#">3.3</a>
437 (1) (b)	a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution	<a href="#">3.2</a>
437 (1) (c)	the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments	<a href="#">3.2</a>
437 (1) (d) (ii)	each deduction made pursuant to Articles 36, 56 and 66	<a href="#">3.1</a>
437 (1) (d) (iii)	items not deducted in accordance with Articles 47, 48, 56, 66 and 79	<a href="#">3.1</a>
<b>Capital Requirements</b>		<b>Section</b>
438(a)	Summary of institution's approach to assessing the adequacy of its internal capital	<a href="#">4.2</a>
438(c)	Capital requirement amounts for credit risk for each Standardised approach exposure class (8% of risk-weighted exposure).	<a href="#">5.1</a>
<b>Credit Risk Adjustments</b>		<b>Section</b>
442(a)	Definitions for accounting purposes of 'past due' and 'impaired'.	<a href="#">5.1.1</a>
442(b)	Approaches for determining specific and general credit risk adjustments.	<a href="#">5.1.2</a>

<b>442(d)</b>	Geographical distribution of exposures, broken down in significant areas by material exposure classes	<a href="#">5.1.3</a>
<b>442(e)</b>	The distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs	<a href="#">5.1.4</a>
<b>442(f)</b>	The residual maturity breakdown of all the exposures, broken down by exposure classes	<a href="#">5.1.5</a>
<b>Use of ECAI's</b>		<b>Section</b>
<b>444(a)</b>	Names of the nominated ECAIs used in the calculation of Standardised approach RWAs, and reasons for any changes.	<a href="#">5.2</a>
<b>444(b)</b>	Exposure classes for which ECAI is used	<a href="#">5.2</a>
<b>444(d)</b>	Mapping of external rating to credit quality steps.	<a href="#">5.2</a>
<b>444(e)</b>	Exposure values pre- and post-credit risk mitigation, by credit quality step.	<a href="#">5.2</a>
<b>Exposure to market risk</b>		<b>Section</b>
<b>445</b>	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	<a href="#">5.3</a>
<b>Operational Risk</b>		<b>Section</b>
<b>446</b>	Disclosure of the scope of approaches used to calculate operational risk, discussion of internal and external factors considered in the case of advanced measurements approach.	<a href="#">5.4</a>
<b>Remuneration Disclosures</b>		<b>Section</b>
<b>450</b>	Remuneration Policy	<a href="#">7</a>
<b>450(1)(a)</b>	Information concerning the decision-making process used for determining the remuneration policy	<a href="#">7.1</a>
<b>450(1)(b)</b>	Information on link between pay and performance	<a href="#">7.2</a>
<b>450(1)(c)</b>	The most important design characteristics of the remuneration system	<a href="#">7.1</a>
<b>450(1)(d)</b>	The ratios between fixed and variable remuneration	<a href="#">7.3</a>
<b>450(1)(e)</b>	Information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based	<a href="#">7.1</a>
<b>450(1)(f)</b>	The main parameters and rationale for any variable component scheme and any other non-cash benefits	<a href="#">7.1</a>
<b>450(1)(g)</b>	Aggregate quantitative information on remuneration, broken down by business area	<a href="#">7.3</a>
<b>450(1)(h)(i)</b>	Aggregate quantitative information on remuneration, broken down by senior management and members of staff	
<b>450(1)(h)(ii)</b>	whose actions have a material impact on the risk profile of	
<b>450(1)(h)(iii)</b>	the institution	

<b>450(1)(h)(iv)</b>		<a href="#">7.3</a>
<b>450(1)(h)(v)</b>		
<b>450(1)(h)(vi)</b>		
<b>450(1)(i)</b>	The number of individuals being remunerated €1 million or more per financial year, for remuneration between €1 million and €5 million broken down into pay bands of €500.000 and for remuneration of €5 million and above broken down into pay bands of €1 million	<a href="#">7.3</a>

## 1. INTRODUCTION

### 1.1. CIF Information

Streams Financial Services Ltd (hereinafter the “Company”) was incorporated in the Republic of Cyprus on 01 August 2018 as a private limited liability company with registration number HE 387124 and it is a Cyprus Investment Firm (hereinafter “CIF”). The Company was licensed by the Cyprus Securities and Exchange Commission (hereinafter the “CySEC”) with number 376/19 to provide financial services, on 29 July 2017.

Table 1 below illustrates the current licence information of the Company:

**Table 1 - Company Licence Information (based on the First Appendix of the Law 87(I)/2017, as amended)**

		Investment Services and Activities								Ancillary Services						
		1	2	3	4	5	6	7	8	1	2	3	4	5	6	7
<b>Financial Instruments</b>	<b>1</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>2</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>3</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>4</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>5</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>6</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>7</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>8</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>9</b>	✓	✓	-	-	-	-	-	-	✓	✓	-	-	-	-	-
	<b>10</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>11</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The Company is authorised to provide the following Investment Services, in accordance with Part I of the First Appendix of the Law 87(I)/2017, as amended:

- Reception and transmission of orders in relation to one or more financial instruments
- Execution of orders on behalf of clients

The Company is also authorised to provide the following Ancillary Services, in accordance with Part II of the First Appendix of the Law 87(I)/2017, as amended:

- Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management.
- Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction
- Foreign exchange services where these are connected to the provision of investment services.

The Company is authorised to provide the aforementioned investment and ancillary services for the Financial Instruments of “Financial contracts for differences”, in accordance with Part III of the First Appendix of Law 87(I)/2017.



Moreover, pursuant to the Regulation (EU) 575/2013 (the “Regulation” or “CRR”), the Company is categorised as “Limited Licence” CIF with minimum/initial capital requirement of €125,000.

## **1.2. Scope of application**

The Pillar III disclosures Report (the ‘Report’) is prepared on an individual (solo) basis in accordance with the Pillar 3 disclosure requirements as laid out in Part Eight of the CRR and have as a starting point the financial information used in the Company’s Financial Statements which are prepared in accordance with the International Financial Reporting Standards (“IFRS”). As the two documents serve different purposes, the reported figures illustrate differences, which lie on the differences of the fundamental concepts between the CRR and the IFRS. The regulatory exposure classes are based on different criteria from accounting asset types and are therefore not comparable on a line by line basis. Moreover, through financial statements, a company aims to provide the value of all on-balance sheet items at a given point in time, whereas regulatory exposures entail an element of risk which is taken into consideration during the calculation and determination of the said exposures.

## **1.3. Pillar III Regulatory framework**

### **1.3.1. Regulatory framework overview**

This Pillar III report has been prepared in accordance with Section 4 (Paragraph. 32) of the CySEC Directive for the prudential supervision of investment firms which implements the CRR and CRD IV, as well as the relevant provisions of new Law 87(I)/2017 (hereinafter, the “Law”), as amended.

The CRR establishes the prudential requirements for capital, liquidity and leverage that entities need to abide by. Furthermore, CRR introduces significant changes in the prudential regulatory regime applicable to institutions including amended minimum capital ratios, changes to the definition of capital and the calculation or risk weighted assets and the introduction of new measures relating to leverage, liquidity and funding. CRD IV governs access to internal governance arrangements including remuneration, Board of Directors (the “Board”) composition and transparency.

The Regulatory framework consists of a three “Pillar” approach:

- **Pillar I** - Establishes minimum capital requirements, defines eligible capital instruments, and prescribes rules for calculating RWA for credit risk, market risk and operational risk.
- **Pillar II** – Requires firms and supervisors to take a view on whether a firm should hold additional capital against: risks considered under Pillar I that are not fully captured by the Pillar I process (e.g. credit concentration risk), risks not taken into account by the Pillar I process (e.g. interest rate risk in the banking book, business and strategic risk) and factors external to the firm (e.g. business cycle effects). Pillar II connects the regulatory capital requirements to the Company’s Internal Capital Adequacy Assessment Process (“ICAAP”) and to the reliability of its internal control structures. The function of Pillar II is to provide communication between supervisors and institutions on a continuous basis and to evaluate how well the institutions are assessing their capital needs relative to their risks. If a

deficiency arises, prompt and decisive action is taken to restore the appropriate relationship of capital to risk.

- **Pillar III** - Market Discipline requires the disclosure of information regarding the risk management policies of the Company, as well as the results of the calculations of minimum capital requirements, together with concise information as to the composition of original own funds.

### **1.3.2. Disclosure Policy: Basis and Frequency of Disclosure / Location and verification**

The Company has a formal policy, approved by the Board, which details its approach in complying fully with the Pillar 3 disclosure requirements as laid out in Part Eight of the CRR. According to the Directive, the risk management disclosures should be included in either the financial statements of the CIF if these are published, or on their websites.

The Pillar III disclosure requirements are contained in Articles 431 to 455 of the Regulation. In addition, these disclosures must be verified by the external auditors of the CIF. The CIF will be responsible to submit its external auditors' verification report to CySEC. The Company has included its risk management disclosures as per the Directive on its website as it does not publish its financial statements.

As per the Article 432(1) of the CRR, institutions may omit one or more disclosures, if such disclosures are not regarded as material, except for the following disclosures:

- Regarding the policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved (*Article 435 (2) (c)* of CRR).
- Own funds (*Article 437* of CRR).
- Remuneration policy (*Article 450* of CRR).

Materiality is based on the criterion that the omission or misstatement of information would be likely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions. Where the Company has considered a disclosure to be immaterial, this was not included in the document.

### **Disclosures and Confidential Information**

The Regulation also provides that institutions may omit one or more disclosures, if such disclosures are regarded as confidential or proprietary. The CRR defines proprietary as if sharing that information with the public would undermine its competitive position. It may include information on products or systems which, if shared with competitors, would render an institution's investments therein less valuable.

Information is regarded as confidential if there are obligations to customers or other counterparty relationships binding an institution to confidentiality. Under the light of the above, the Company avoided to disclose such confidential information in this report.

## **Frequency**

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

## **Medium and location of publication**

Institutions may determine the appropriate medium, location and means of verification to comply effectively with the disclosure requirements. In this respect, the Company's Pillar III disclosures are published on the Company's website: [www.streamsfx.com](http://www.streamsfx.com)

## **Verification**

The Company's Pillar III disclosures are subject to internal review and validation prior to being submitted to the Board of Directors for approval. The Company's Pillar III disclosures have been reviewed and approved by the Board. In addition, the Remuneration disclosures have been reviewed by the Risk Management Committee.

### **1.4. Risk Management Objectives and Policies**

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

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

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

Third Line of Defence: Comprised by the Internal Audit Function which is responsible for providing assurance to the Board on the adequacy of design and operational effectiveness of the systems of internal controls. Internal Audit undertakes on-site inspections/visits to ensure that the responsibilities of each Function are discharged properly (i.e. soundly, honestly and professionally) as well as reviews the Company's relevant policies and procedures. Internal Audit works closely with both the First and Second Lines of Defence to ensure that its findings and recommendations are taken into consideration and followed, as applicable.



### 1.4.1. Risk Management Framework

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

- The adequate risk identification and management
- The establishment of the necessary policies and procedures
- The setting and monitoring of the relevant limits and
- Compliance with the applicable legislation

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

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

### 1.4.2. Risk Statement

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

Even though the global economy has recorded growth in the latest year after overcoming the latest economic recession, the overall future economic outlook of the economy remains unstable due to the recent developments on the outbreak of Coronavirus (COVID-19).

Following the outbreak of COVID-19 in Cyprus, the Company is following the local government guidelines in its response to the virus. During the year 2020, the Company concentrated their efforts on monitoring and assessing the impact of the COVID-19 as well as ensuring business continuity. In this respect, it has taken the required measures to ensure that its employees have access to its technology infrastructures necessary for the completion of their tasks and that additional system for critical functions are being provided, as per the updated Business Continuity Plan.

### **Risk Strategy**

The risk strategy of the Company is the responsibility of the Board of Directors, which formulates it and is responsible for monitoring its implementation. This is achieved through the development of risk management processes and procedures as well as through an assessment of the risks undertaken and the effectiveness of the risk management framework, given the Company's business model. One important characteristic of the Company's risk strategy is the alignment with the strategic and operational targets that are set by the Board. The risks that arise from the implementation of the Company's strategic and business plans are regularly analysed in order to ensure the adequacy of the relevant policies, procedures and systems.

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

### **Risk Appetite**

Risk appetite is the level and type of risk a firm is able and willing to assume in its exposures and business activities, given its business objectives and obligations to stakeholders. Risk appetite is generally expressed through both quantitative and qualitative means and should consider extreme conditions, events and outcomes. In addition, risk appetite should reflect potential impact on earnings, capital and funding/liquidity.

The company has a low risk appetite in respect to investing and to managing business and operational activities

According to Financial Stability Board (FSB) an appropriate risk appetite framework (RAF) should enable risk capacity, risk appetite, risk limits, and risk profile to be considered for business lines and legal entities as relevant, and within the group context. The Risk appetite framework is defined as the overall approach, including policies, processes, controls, and systems through which risk appetite is established, communicated, and monitored. It includes a risk appetite statement, risk limits, and an outline of the roles and responsibilities of those overseeing the implementation

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

**Table 2: Risk Appetite areas**

Indicator	Normal <sup>1</sup>	Warning <sup>2</sup>	Limit <sup>3</sup>
Own Funds	≥€190k	<€190k	€125k
Common Equity Tier 1 Ratio <sup>4</sup>	≥8.00%	<8.00%	4.50%
Total Capital Ratio <sup>4</sup>	≥11.50%	<11.50%	8.00%
Exposure with Shareholders	0%	>0%	2.00%
Exposure with Directors	0%	>0%	1.00%

**Notes**

1. The level of the indicator is within the acceptable limits as per the Company's risk appetite.
2. The Company should take proactive actions in order to ensure that the level of the indicator will remain above the acceptable limits.
3. The level of the indicator falls below the acceptable limits and as such the Company should proceed with the required actions in order to restore the level of the said indicator to the normal predefined levels.
4. ICAAP add-on + 1.50% as per the paragraph 18 of the Law 20(I)/2016 have been taken into consideration for Normal and Warning thresholds

The Risk Appetite framework has been designed to create links to the strategic long term plan, capital planning and the Company's risk management framework. The Board approves the Company's corporate strategy, business plans, budget, long term plan and ICAAP. The Company employs mitigation techniques defined within the Company's policies, to ensure risks are managed within Risk Appetite.

**1.4.3. Risk Culture**

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

**1.4.4. Upcoming Regulatory Changes – IFR & IFD**

The European Parliament on 16 April 2019 has adopted a new, comprehensive regulatory regime for investment firms: the Investment Firm Directive ("IFD") and Investment Firm Regulation ("IFR") are intended to replace the existing applicable regulation for investment firms.



While small and "non-interconnected" firms in particular will benefit from less regulation, the legislation for "systemically relevant" investment firms means no less than equal treatment with credit institutions in the sense of a level playing field – accordingly, they will fall entirely under the previous regulatory framework (i.e. CRR). As a result, all other investment firms will no longer be subject to the CRD/CRR framework, which is primarily intended for banks.

The new regulatory regime applies to ALL investment firms authorised and supervised under the MiFID II. The main regulatory changes in the prudential framework by IFR and IFD:

- a. New Classification of Investment Firms
- b. Initial Capital Requirement and Composition
- c. Capital Requirements (K-Factors)
- d. Concentration Risk Requirement
- e. Liquidity Requirements
- f. Disclosures Requirements
- g. Reporting Requirements

Other Supervisory Requirements According to the new prudential regulatory framework the Initial Capital Requirements and classification for investment firms will be amended. Specifically, investment firms will be classified into three different categories (Class 1, Class 2 and Class 3) based on their size and business operations. Moreover, the initial capital requirements will be amended (€750k, €150k and €75k) and it will be decided based on the investment services an entity is authorised to offer.

Further to the above, the regulatory capital ratio requirements will not be applicable anymore and investment firms will be requested to comply with the following at all times:

- a) CET 1 should constitute at least 56% of capital requirements;
- b) Tier 1 should constitute at least 75% of capital requirements;
- c) Tier 1 and Tier 2 should constitute at least 100% of capital requirements

CET1, Tier 1 and Tier 2 will be calculated in accordance with the eligibility criteria of the capital instruments as per the provisions of the CRR.

As regards the capital requirements calculation, Class 1 Investment Firms will continue calculate their overall capital requirements in accordance with the provisions of the existing regulation. However, Class 2 Investment Firms will be requested to maintain own funds of at least the higher between a) Initial Capital, b) K-Factors requirement and c) Fixed Overheads requirement while Class 3 Investment Firms' capital requirements will be calculated as the higher between only a) Initial Capital and b) Fixed Overheads requirement. K-factors methodology which is applicable for Class 2 Investment Firms will replace the current credit risk, market risk and operational risk approach in order to calibrate the capital needed to meet the risks of the investment firm. Class 3 firms are not required to calculate their capital based on the K-factor formula while they need to calculate the K-factors for categorisation purposes.

Capital requirement from applying K-factors formula (pursuant to Article 15 of the IFR) is the sum of Risk to Customer (RtC), Risk to Market (RtM) and Risk to Firm (RtF). The K-Factors are calculated as shown below:

**Table 3: K-Factors as per IFR&IFD**

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

*\*K-AUM, K-ASA, K-CMH, K-COH and K-DTF relate to the volume of activity. The volumes should be multiplied by the corresponding coefficients set out in IFR in order to determine the own fund requirement.*

Further to the above, the Company has already assessed the requirements under the new prudential regulatory framework and concluded that it will be classified as Class 2 Investment Firm and as such it will be requested to maintain own funds of at least the higher between a) the initial capital requirement, b) the K-Factors requirement and c) Fixed Overheads requirement.

### **Circular C426 - Updates for the new prudential framework of Investment Firms (IFR/IFD)**

CySEC continuously updates all CIFs about the EBA actions regarding the implementation of the new prudential regulatory framework IFR/IFD. On 02 February 2021, CySEC issued Circular C426 to provide CIFs with the latest updates regarding the following matters:

- Seven (7) Final draft technical standards regarding IFR/IFD
- Reporting and disclosures requirements under IFR/IFD
- Launch of Consultation Papers and Public hearing by the EBA
- Next actions to be taken by CIFs.

### **1.5. Declaration of the Management Body**

The Management Body is required to proceed with an annual declaration on the adequacy of the Company’s risk management framework and ensure that the risk management arrangements and systems of financial and internal control in place are in line with the Company’s risk profile. The Company’s risk management framework is designed to identify, assess, mitigate and monitor all sources of risk that could have a material impact on the Company’s operations. The Board considers that it has in place adequate systems and controls with regard to the Company’s size, risk profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, to avoid or minimise loss.



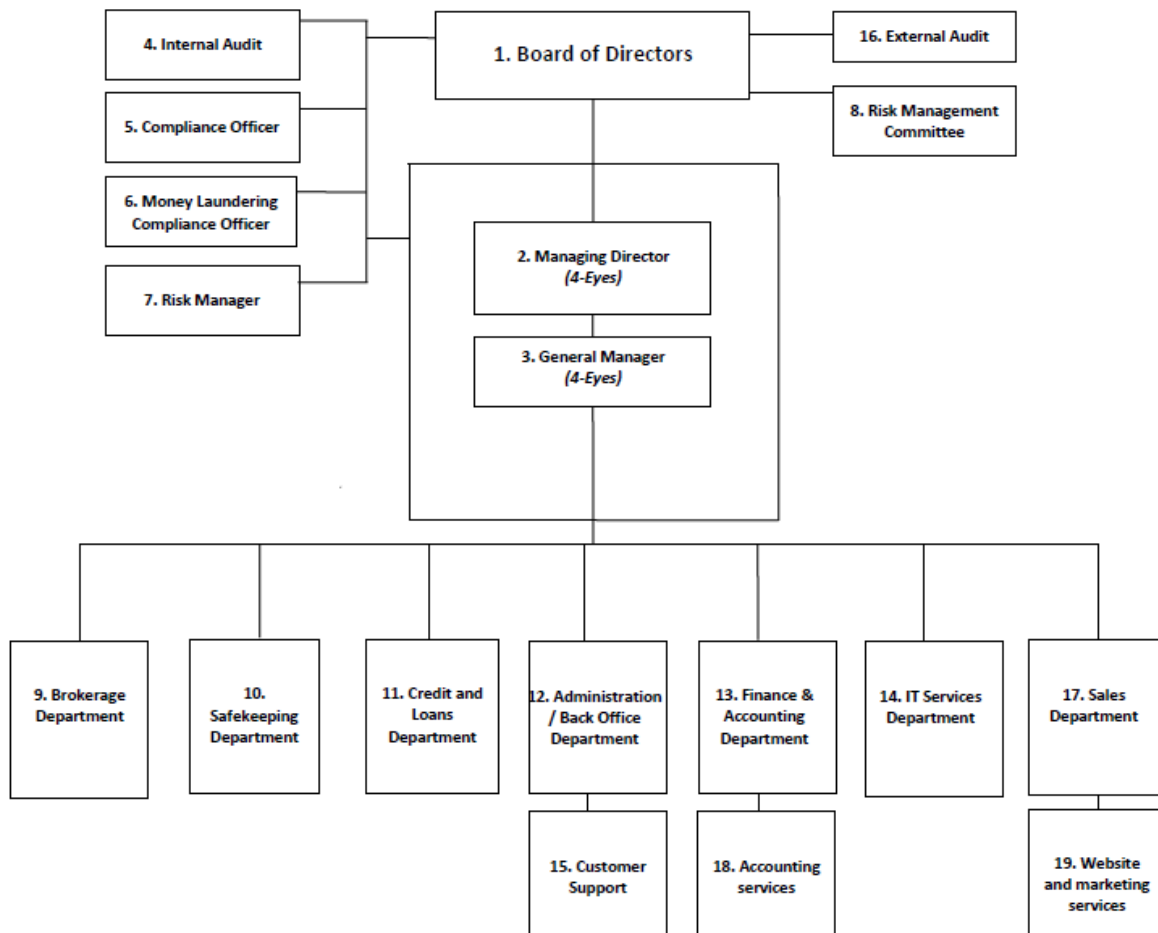
## 2. CORPORATE GOVERNANCE

The Company’s systems of risk management and internal control include risk assessment, management or mitigation of risks, including the use of control processes, information and communication systems and processes for monitoring and reviewing their continuing effectiveness.

The risk management and internal control systems are embedded in the operations of the Company and are capable of responding quickly to evolving business risks, whether they arise from factors within the Company or from changes in the business environment.

### 2.1. Organisational Structure

The company’s latest organizational structure is as follow:



### 2.2. The Board of Directors

The Board has the overall responsibility for the establishment and oversight of the Company’s Risk Management Framework. The Board satisfies itself that financial controls and systems of risk

management are robust. The Board comprises of two executive directors and three non-executive directors.

The Company has in place the Internal Operations Manual which lays down the activities, processes, duties and responsibilities of the BoD, Committees, Senior Management and staff of the Company.

The Company implements and maintains adequate risk management policies and procedures which identify the risks relating to the Company’s activities, processes and systems, and where appropriate, set the level of risk tolerated by the Company. The Company adopts effective arrangements, processes and systems, in light of that level of risk tolerance, where applicable.

### 2.3. Number of Directorships held by members of the Board

All members of the Board commit sufficient time to perform their functions in the Company. The number of directorships which may be held by a member of the Board at the same time shall take into account individual circumstances and the nature, scale and complexity of the Company’s activities. Unless representing the Republic, members of the Board of directors of a CIF that is significant in terms of its size, internal organisation and the nature, the scope and the complexity of its activities shall not hold more than one of the following combinations of directorships at the same time:

- One executive directorship with two non-executive directorships;
- Four non-executive directorships.

For the purposes of the above, Executive or non-executive directorships held within the same group shall count as a single directorship. Furthermore, directorships in organisations which do not pursue predominantly commercial objectives such as non-profit or charitable organisations shall not count for the purposes of the above guidelines.

The table below discloses the number of directorships held by members of the management body.

**Table 4: Number of Directorships of the members of the Board of Directors**

Director	Function	Number of Executive Directorships	Number of Non-Executive Directorships
Mr. Steven Illman	Managing Director (Executive Director)	2	-
Ms. Mihaela Radu *	General Manager (Executive Director)	1	-
Mr. Reuther Holger	Non-Executive Director	1	1
Mrs. Irene Xyda	Independent, Non-Executive Director	-	2
Mr. Marinos Haralambous	Independent, Non-Executive Director	1	2

*\*Appointed on 07 April 2021 in replacement of Mr. Hamza Yasein*

## **2.4. Policy on Recruitment**

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

## **2.5. Policy on Diversity**

The Company is committed to promote a diverse and inclusive workplace at all levels, reflective of the communities in which it does business. It approaches diversity in the broadest sense, recognizing that successful businesses flourish through embracing diversity into their business strategy, and developing talent at every level in the organisation. For this purpose, the Company takes into consideration various aspects such as broad industry experience, knowledge, independence, gender, age, cultural and educational background, for the Board appointments

## **2.6. Governance Committees**

### *Risk Management Committee*

The Risk Management Committee of the Company is formed with the view to ensure the efficient monitoring of the risks inherent in the provision of the investment and ancillary services to Clients, as well as the overall risks underlying the operations of the Company. To this effect, the Company has adopted and maintains an applied risk management framework/policy, which identifies the risks relating to the Company's activities, processes and systems and sets the risk tolerance levels of the Company.

The Risk Management Committee bears the responsibility to monitor the adequacy and effectiveness of the said risk management framework/policy and procedures that are in place, the level of compliance by the Company and its relevant persons with the policies and procedures adopted, as well as the adequacy and effectiveness of measures taken to address any deficiencies with respect to those policies and procedures that are in place, including failures by the Company's relevant persons to comply with those policies and procedures. The Risk Management Committee meets at least annually, unless the circumstances require extraordinary meetings.

### *Risk Manager*

Further to the formation of the overall Internal Governance Framework, it should be noted that the Board has appointed a Risk Manager to ensure that all the different types of risks taken by the Company are in compliance with the Law and the 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 Risk Manager reports directly to the Senior Management of the Company while as previously discussed, the Risk Management Committee is responsible to control and overview the Risk Manager's actions/ performance at work.

**2.7. Other Governance Functions**

**Internal Audit Function**

The Internal Auditor reports to the Senior Management and the Board of the Company and is separated and independent from the other functions and activities of the Company. The Internal Auditor has access to the Company’s premises, systems, information, personnel and financials. The Board ensures that internal audit issues are considered when presented to it by the Internal Auditor and appropriate actions are taken according to the Board’s assessment and prioritization.

**Compliance Function**

Pursuant to the regulatory obligations of the Company and with the view to complement the Internal Governance framework of the Company, the Board has appointed a Compliance Officer, to head the Compliance Function of the Company in order to establish, implement and maintain adequate policies and procedures designed to detect any risk of failure by the Company to comply with its obligations, to put in place adequate measures and procedures designed to minimize such risks and to enable the competent authorities to exercise their powers effectively. The Compliance Officer is independent and reports directly to the Senior Management of the Company, having at the same time the necessary authority, resources, expertise and access to all relevant information.

**Anti-Money Laundering Compliance Officer**

The Board retains a person to the position of the Company’s Anti-Money Laundering Compliance Officer (hereinafter the “AMLCO”) to whom the Company's employees report their knowledge or suspicion of transactions involving money laundering and terrorist financing. The AMLCO belongs to the higher hierarchical levels/layers of the Company so as to command the necessary authority. The AMLCO leads the Company’s Anti-Money Laundering Compliance procedures and processes and report to the Senior Management and the Board of the Company.

**Table 5: Roles and Responsibilities**

Role	Responsibilities
<p><b>Risk Management Committee</b></p>	<ul style="list-style-type: none"> <li>• Scrutinize and decide on various risks associated with the operation of the Company with the view to increase the awareness of, formulate internal policies and measure the performance of the said policies</li> <li>• Review the risk management procedures in place</li> <li>• Review the ICAAP on a yearly basis</li> <li>• Monitor and control the Risk Manager’s and Risk Management Department’s performance and effectiveness</li> <li>• Ensure that the Company has clear policy in respect of the assumption, follow up and management of risks duly notified to all interested parties or organizational units of the Company.</li> <li>• Break down of such risk limits further where necessary, for example, per class of investment service or Financial Instrument, or Client or market</li> <li>• Implement stop loss-control limits</li> <li>• Follow up open positions within the approved limits</li> </ul>

	<ul style="list-style-type: none"> <li>• Ensure the immediate tracking down and scrutiny of important abrupt changes in the Company’s financial figures, procedures or personnel, as well as the regular control of the volume and causes underlying deviations between projections and corporate end results, as submitted to the Board</li> <li>• Approve Client and counterparty limits</li> <li>• Approve policy description concerning information systems and monitor the information systems in place</li> <li>• Establish policy regarding the amount of information provided to Clients about the nature and risks of Financial Instruments according to the Client classification</li> <li>• Supervise the Disaster Recovery Plan</li> </ul>
<b>Risk Manager</b>	<ul style="list-style-type: none"> <li>• Design the overall risk management system of the Company</li> <li>• Comply and implement the relevant provisions of the Law</li> <li>• Prepare the Risk Management policies and procedures</li> <li>• Provide training to relevant employees and the Senior Management, on risk-related issues</li> <li>• Analyze the market and its trends</li> <li>• Evaluate the effect of the introduction of any potential new services or activities on the Company’s risk management</li> <li>• Measures for the monitoring of capital adequacy and large exposures</li> <li>• Draft written reports to the Management Body including recommendations.</li> <li>• Monitor Client and counterparty limits</li> <li>• Identify and manage the overall risks faced by the Company</li> <li>• Establish methods for risk monitoring and measurement</li> <li>• Prepare and implement the ICAAP of the Company</li> <li>• Apply stress testing scenarios and undertake analysis of the results,</li> <li>• Propose for additional, if necessary, capital allocation for Pillar 2 risks and other risks not covered by Pillar 1</li> <li>• Apply the relevant provisions of the CRDIV requirements, as amended from time to time</li> <li>• Review the policy on maximum limits with respect to liquidity risk and market risk</li> </ul>
<b>Compliance Function</b>	<ul style="list-style-type: none"> <li>• Liaise with all relevant business and support areas within the Company</li> <li>• Monitor and assess the adequacy and effectiveness of the measures, policies and procedures put in place</li> <li>• Monitor and assess the level of Legal &amp; Compliance Risk that the Company faces</li> <li>• Provide training to the staff of the Company in respect with the compliance function according to the Law</li> <li>• Communicate the relevant statutes of the IOM to each employee and notify them of any relevant changes therein</li> <li>• Develop and design the appropriate procedures of the Company, so as to prevent and resolve potential conflicts of interest</li> <li>• Ensure that all employees have the ability to identify cases of potential conflicts of interest.</li> </ul>

	<ul style="list-style-type: none"> <li>• Disclose to Clients the general nature and any potentially present conflicts of interest</li> <li>• Keep records regarding conflict of interest situations</li> <li>• Consent and approve the Company’s Replacement Policy</li> <li>• Establish and implement the measures as regards personal transactions and notify each relevant person of the restrictions on personal transactions</li> <li>• Review the Company’s website, on at least annual basis</li> <li>• Ensure that the termination process of Clients account is followed</li> <li>• Ensure that the performance of multiple functions by the Company’s relevant persons does not and is not likely to prevent those persons from discharging any particular function soundly, honestly, and professionally</li> <li>• Follow up Client complaints or grievances in relation to the Administration/Back Office Department and filing these complaints.</li> <li>• Approve the information script and/or standard FAQ which shall state the information that can be shared with Clients</li> <li>• Monitor the development and periodic review of product governance arrangements</li> </ul>
<b>AMLCO</b>	<ul style="list-style-type: none"> <li>• The improvement of mechanisms used by the Company for counteraction of legalization (laundering) of criminally earned income</li> <li>• To decrease the probability of appearance among the Customers of the Company of any persons/organizations engaged in illegal activity and/or related with such persons/organizations</li> <li>• To minimize the risk of involvement of the Company in any unintended holding and realization of operations with any funds received from any illegal activity or used for its financing</li> <li>• To ensure compliance with anti-money laundering laws and directives issued by CySEC as well as the identification and proper reporting of any money laundering activity to the relevant authorities</li> </ul>
<b>Internal Audit</b>	<ul style="list-style-type: none"> <li>• Establish, implement and maintain an audit plan to examine and evaluate the adequacy and effectiveness of the Company’s systems, internal control mechanisms and arrangements</li> <li>• Issue recommendations based on the result carried out in accordance with point</li> <li>• Verify compliance with the recommendations of point</li> <li>• Provide timely, accurate and relevant reporting in relation to internal audit matters to the Board of Directors and the Senior Management of the Company, at least annually.</li> <li>• Provide the Company with an Independent confirmation that the process followed by the Company is according to the Board’s requirements,</li> <li>• Provide the Company with an Independent review of the risk assessment, stress testing and capital allocation exercises performed, and shall confirm their compliance with the policies and procedures approved by the Board of the Company</li> <li>• Perform an Independent validation of all numbers included in the ICAAP Report and shall confirm their agreement with the financial records</li> </ul>

## **Outsourcing**

The Company outsources some functions and activities to reputable and skilled individuals or companies, as per the provisions of the Law. In outsourcing the functions and activities, the Company remains fully responsible for discharging all of its obligations under the Law and complies in particular with the following conditions:

- a) the outsourcing must not result in the delegation by senior management of its responsibility
- b) the relationship and obligations of the Company towards its Clients under the Law must not be altered
- c) the conditions with which the Company must comply in order to be authorized in accordance with the conditions for granting a CIF authorization as stated by the Law, and to remain so, must not be undermined
- d) none of the other conditions subject to which the Company's authorization was granted must be removed or modified
- e) where the compliance function is outsourced, the responsibility shall lay with the service provider (physical person) and in no case the responsibility shall be limited through the outsourcing agreement

It is noted that the following principle is adhered at all times, during any outsourcing: in the case that outsourcing concludes the transfer of functions of the Company to such a degree which renders the Company's a letter box entity, it is considered to undermine the conditions for authorization of the Company by CySEC.

The Compliance Officer ensures that the outsourced functions are included in the relevant outsourcing agreements with the service providers or individuals, and the Managing Director ensures that these are adhered to at all times. The Board passes a resolution for selecting a service provider or individual for outsourcing and the Internal Auditor receives all feedback on the performance of the outsourced duties, at least annually. The Company exercises due skill, care and diligence when entering into, managing or terminating any arrangement for the outsourcing to a service provider of critical or important operational functions or of any investment services or activities.

The respective rights and obligations of the Company and of the service provider are clearly allocated and set out in a written agreement. In particular, the Company keeps its instruction and termination rights, its rights of information, and its right to inspections and access to books and premises. The agreement ensures that outsourcing by the service provider only takes place with the consent, in writing, of the Company.

### **2.8. Information flow on risk to the management body**

Risk information flows up to the Board directly from the business departments and control functions. The Board ensures that it receives on a frequent basis, at least annually written reports regarding Internal Audit, Compliance, Money Laundering and Terrorist Financing and Risk Management issues and approves the Company's ICAAP report as shown in the table below:



**Table 6: Information flow on risk to management body**

	<b>Report Name</b>	<b>Owner of Report</b>	<b>Recipient</b>	<b>Frequency</b>
1	Risk Manager's Report	Risk Manager	Senior Management, Board, CySEC	Annual
2	Pillar I – CRDIV CoRep Forms	Risk Manager	Senior Management, Board, CySEC	Quarterly
3	ICAAP(Pillar 2) Report	Risk Manager	Senior Management, Board	Annual
4	Pillar 3 Disclosures	Risk Manager	Senior Management, Board	Annually
5	Risk Register	Risk Manager	Senior Management, Board	Annually
6	Compliance Report	Compliance Officer	Senior Management, Board, CySEC	Annually
7	Internal Audit Report	Internal Auditor	Senior Management, Board, CySEC	Annually
8	Anti-money laundering (AMLCO) Report	Anti-money laundering Compliance Officer	Senior Management, Board, CySEC	Annually
9	Audited Financial Statements	External Auditor	Senior Management, Board, CySEC	Annually
10	Form 144-14-11 'Prudential Supervision Information'	Risk Manager	Senior Management, Board, CySEC	Annually

Furthermore, the Company believes that the risk governance processes and policies are of utmost importance for its effective and efficient operation. The processes are reviewed and updated on an annual basis or when deemed necessary.

### **Reporting/Notification Deadlines amid the impact of COVID-19**

In light of the reporting obligations for the year 2020, CySEC announced extension for the most of the annual reporting obligations due to the outbreak of Coronavirus (COVID-19).

CySEC has issued on 17 March 2020, the Circular C365 in order to inform CIFs that the recent developments on the outbreak of the COVID-19 may prevent CIFs from submitting relevant reports/notifications to CySEC by the designated deadlines. Moreover, it has issued on 31 March 2020, the Circular C373 in order to inform CIFs regarding a further extension of the deadlines for submitting the relevant reports to CySEC. Finally, CySEC issued the Circular C381 in order to inform CIFs regarding the publication deadline of the Pillar III Disclosures report for the year 2019 and the submission deadline of the External Auditors' verification report for the year 2019.

In this respect, the table below indicating the new deadline dates set and the respective announcement for each reporting obligation:



**Table 7: Extended regulatory reporting deadlines**

<b>Regulatory Obligations Deadlines</b>	<b>Current Deadline</b>	<b>Extension Deadline</b>	<b>Circular</b>
Capital Adequacy Forms based on the Audited Financial Statements	31/05/2020	31/07/2020	<u>C373</u>
Annual Risk Management Report	30/04/2020	31/07/2020	<u>C373</u>
Annual Audited Financial Statements	30/04/2020	31/07/2020	<u>C373</u>
Annual Disclosure & Market Discipline Report (Pillar III Report)*	30/04/2020	31/07/2020	<u>C381</u>
Annual Fees to CySEC Form 87-03-01	30/04/2020	31/07/2020	<u>C372</u>
Prudential Supervision Information Form 144-14-11	30/06/2020	31/08/2020	<u>C373</u>
External Auditor's Verification Report on Pillar III Disclosures	31/05/2020	31/08/2020	<u>C381</u>

*\*CIFs anticipate that the publication of their Pillar III disclosures will be delayed, should inform the market participants for that delay, the reasons of delay and, to the extent possible, their estimated publication date.*

Further to the above, the Company delivered all Reports by the extended deadlines.

### 3. OWN FUNDS

Own Funds (also referred to as capital resources) is the type and level of regulatory capital that must be held to enable the Company to absorb losses. The Company is required to hold own funds in sufficient quantity and quality in accordance with CRD IV which sets out the characteristics and conditions for own funds.

Throughout the year under review the Company manages its capital structure and made adjustments to it in light of the changes in the economic and business conditions and the risk characteristics of its activities.

During the year under review, the Company complied fully with its capital requirement (i.e. €125,000) and fulfilled its obligations by successfully submitting, on a quarterly basis, the CRD IV CoRep Forms. In this respect, the minimum Total Capital Adequacy Ratio (i.e. 8%) was maintained above the regulatory limit (i.e. 8%) by the Company during the year 2020.

#### 3.1. Tier 1 & Tier 2 Regulatory Capital

Institutions shall disclose information relating to their own funds. Furthermore, institutions shall disclose a description of the main features of the Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1) instruments and Tier 2 (T2) instruments issued by the institution. In this respect, the Company's Tier 1 capital is wholly comprised of CET1 Capital.

The composition of the capital base and capital ratios of the company is shown in the following table:

**Table 8: Composition of the capital base and capital ratios**

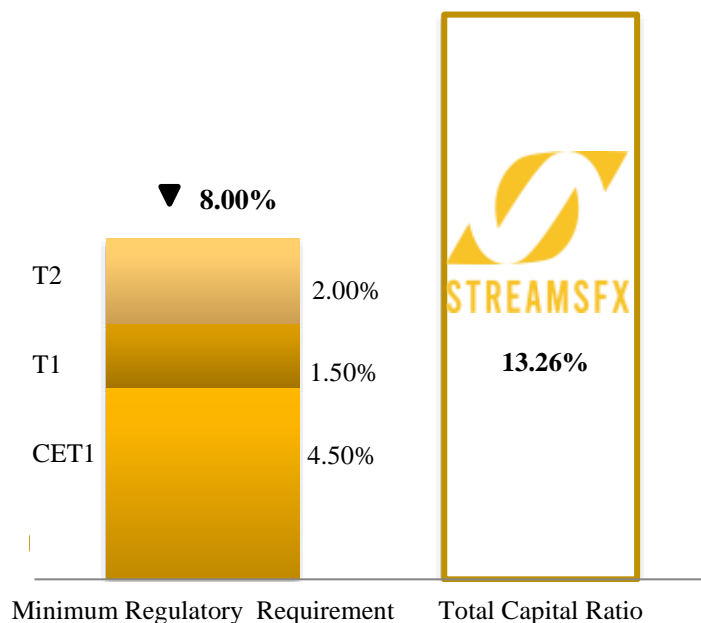
<b>Capital Instruments as at 31 December 2020</b>	<b>€000</b>
<b>CET1 capital: instruments and reserves</b>	
Capital instruments and the related share premium accounts	500
Accumulated Losses	(871)
Non-refundable advances	600
<b>CET1 capital</b>	<b>229</b>
AT1 capital	-
<b>Tier 1 capital</b>	<b>229</b>
T2 capital	-
<b>Total capital (TC = T1 + T2)</b>	<b>229</b>
<b>Risk weighted assets</b>	<b>€000</b>
Credit risk	64
Market risk	-
Additional Risk Exposure amount due to Fixed Overheads*	1,663
<b>Total risk weighted assets</b>	<b>1,728</b>

Capital Ratios	%
Common Equity Tier 1	13.26%
Tier 1	13.26%
Total Capital	13.26%

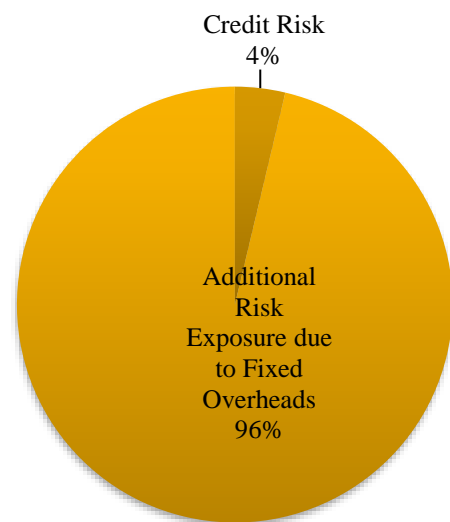
\*Based on the Audited Financial Statements for the year ended 2020

The figures below present the Company’s capital adequacy and the Overall Exposure Breakdown for the year ended 2020.

### Capital Requirements



### Overall Exposure Breakdown



Further to the above and in light of the upcoming amendments to the prudential regulatory framework (IFR/IFD), the Company has concluded that the Company will be categorised as a Class 2 Investment firm and as such its total capital requirement will be the higher of:

- a) Fixed Overheads Requirement
- b) K-factors requirement
- c) Minimum Initial Capital of €150k

In this respect, the Company has already assessed its capital adequacy position taking into consideration the above new methodology in order to ensure that the appropriate actions will be taken to ensure compliance with the new prudential requirements.

### 3.2. Main features of Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments

In order to meet the requirements for disclosure of the main features of Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments, the company discloses the capital instruments’ main features as outlined below:

**Table 9: Main features of capital instruments**

<b>Capital Instruments Main Feature</b>	<b>CET1</b>	
Issuer	Streams Financial Services Ltd	
<b>Regulatory Treatment</b>		
Eligible at Solo/(sub-)consolidated/solo	Solo	
Instrument type	Common Equity	
Amount recognized in regulatory capital	€500k	
Nominal amount of instrument	€1	
Issue Price	€1	
Accounting classification	Shareholders' Equity	
Original date of issuance	<i>Share Capital Increase</i>	<i>Effective Date</i>
	€1k	Incorporation Date
	€399k	06/05/2019
	€100k	12/09/2019
Perpetual or dated	Perpetual	
Original maturity date	No maturity	
Issuer call subject to prior supervisory approval	No	
<b>Coupons / Dividends</b>		
Fixed or floating dividend/coupon	Floating	
Coupon rate and any related index	N/A	

### 3.3. Balance Sheet Reconciliation

Institutions shall disclose a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions and the balance sheet in the audited financial statements of the institution as follows:

**Table 10: Regulatory Capital Reconciliation**

<b>Equity</b>	<b>€000</b>
Share capital	3
Share premium	498
Accumulated losses	(871)
Non-refundable advances	600
<b>Total Equity as per the Audited Financial Statements</b>	<b>229</b>
<b>Total Own funds as per the CoRep Forms</b>	<b>229</b>

## **4. COMPLIANCE WITH THE REGULATION AND THE OVERALL PILLAR II RULE**

### **4.1. Internal Capital**

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

### **4.2. Approach to assessing adequacy of Internal Capital**

The Company shall establish an Internal Capital Adequacy Assessment Process (hereinafter, the “ICAAP”), document it in an ICAAP Manual and produce in this regard the ICAAP Report, pursuant to Section 68 of the Law and the paragraph 33 of the Directive and as per the provisions of Circular 026 (Guidelines GD-IF-02) & Circular 027 (GD-IF-03). Upon CySEC’s request the ICAAP Report shall be submitted to CySEC.

The ICAAP Report describes how the Company implemented and embedded its ICAAP within its business. The ICAAP also describes the Company’s Risk Management framework e.g. the Company’s risk profile and the extent of risk appetite, the risk management limits if any, as well as the adequate capital to be held against all the risks faced by the Company. The ICAAP Report includes quantification of the Pillar I risks but also risks that are not fully covered in Pillar I such as the liquidity risk, the concentration risk, the conduct risk etc.

The Company recognises the importance of the ICAAP and appreciates that it enables the firm to justify its business strategy and risk assessments in such a way to be more diligent in the inclusion of risk factors in the business design process and also to hold less capital than the gross risks to which it is exposed. It is also acknowledged that the ICAAP Report is a reasonably intense process, requiring information from many different departments and committees of the company and also it requires senior management time at the design phase, during the risk and financial data collection phase and for the sign-off phase. Therefore, the Board is committed to continuously update the ICAAP at least annually to reflect the latest strategic plans and updates.

The ICAAP is driving the Company towards an Enterprise Risk Management (ERM) approach by defining and quantifying its overall risk exposure across all risk types. It is noted that a firm which takes ICAAP seriously has a good chance of being able to implement an enterprise risk management framework as part of the ICAAP programme.

Summarizing the above, during the ICAAP, the firm has to:

1. Define and quantify its overall risk exposure across all risk types.
2. Stress and scenario test this exposure.
3. Compare the results to the available capital.

The Company shall update the ICAAP Report upon finalisation of the Audited Financial Statements for the year 2020 in order to reflect more accurately its latest risk profile.

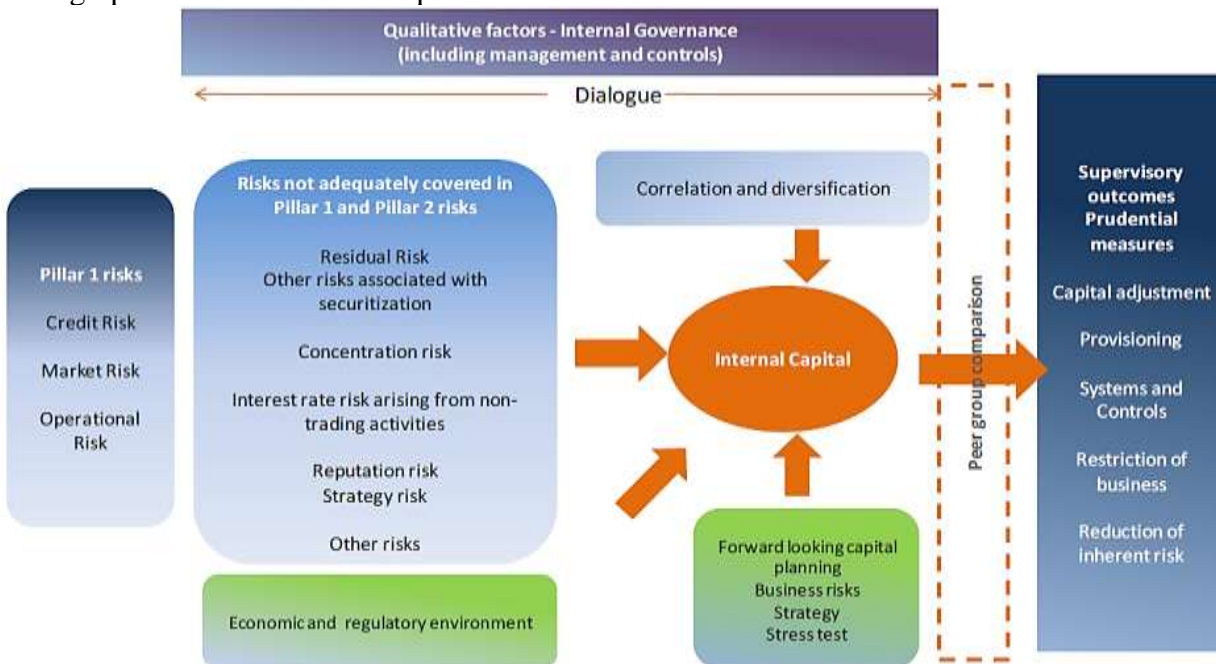
With regards to the ‘use test’ the following evidence shall be used to support that the ICAAP is embedded within the Firm:

- Senior management or board challenge, review and sign-off procedures; including any relevant notes in minutes from board and risk committee meetings.
- The extent to which the ICAAP is part of the firm’s capital management process, including the extent and use of capital modelling or scenario analysis and stress testing within the firm’s capital management policy. For example, in setting pricing and charges and the level and nature of future business.

In line with the Basel requirements, the key instruments to help the Company maintain adequate capitalization on an ongoing and forward-looking basis are:

- A strategic planning process which aligns risk strategy and appetite with commercial objectives;
- A continuous monitoring process against approved risk and capital targets set;
- Regular risk and capital reporting to management; and
- An economic capital and stress testing framework which also includes specific stress tests to underpin the Company’s recovery monitoring processes.

The graph below illustrates the process between ICAAP and SREP:



The Supervisory Review and Evaluation Process (SREP) is the supervisory tool for establishing the appropriate level of capital resources that a CIF should hold in order to meet its present and future capital requirements over a period of up to five years. Circular C027 outlines how CySEC applies the supervisory review and evaluation process (SREP) when reviewing the CIFs’ internal capital adequacy assessment processes (ICAAP) under the framework of the paragraph 33 of the Directive DI144-2014-14.

Further to the above and upon the implementation of the new prudential framework (IFR/IFD), the ICAAP report will be reviewed and updated in accordance with the new capital requirements.

## **5. PILLAR I CAPITAL REQUIREMENTS**

The following sections show the overall Pillar I minimum capital requirement and risk weighted assets for the Company under the Standardised Approach to Credit Risk, Market Risk and the Fixed Overheads requirements.

### **5.1. Credit Risk**

In the ordinary course of business, the Company is exposed to credit risk, which is monitored through various control mechanisms. Credit risk arises when counterparties fail to discharge their obligations and this could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date.

The Company has policies to diversify risks and to limit the amount of credit exposure to any particular counterparty in compliance with the requirements of the Directive. The Company continuously monitors the fair value calculations, forecast and actual cash flows, and cost budgets so that to ensure that the carrying level of Company's own funds and consequently the Capital Adequacy ratio meet the regulatory requirements at all times.

No concentrations of credit risk with respect to trade receivables existed at year end. Trade receivables are shown net of any provision made for impairment. The management believes that no additional credit risk, beyond amounts provided for collection losses, is inherent in the trade receivables. Cash balances are held with high credit quality financial institutions and the Company has policies to limit the amount of credit exposure to any financial institution.

#### ***Impairment***

IFRS 9 introduced a new model for recognition of impairment losses – the expected credit losses (“ECL”) model. The new rules require that entities will have to record an impairment loss equal to the 12-month ECL for financial assets that have not suffered a significant increase in credit risk since initial recognition. Where there has been a significant increase in credit risk since initial recognition, impairment is measured using lifetime ECL rather than 12-month ECL. Entities must calculate probability of default (“PD”), losses given default (“LGD”) and exposures at default (“EAD”) to estimate expected credit loss provisioning amounts. The model includes operational simplifications for lease and trade receivables which require lifetime losses to be calculated.

#### **5.1.1. Credit Risk Adjustments**

The Company assesses at the balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Trade receivables are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method, less provision for impairment. For those trading receivables that are 90 days or more past



due, in non-accrual status, the Company classifies them as “in default”, thus an impairment test will emerge.

Other receivables are recognized initially at fair value and subsequently measured at amortized cost, using the effective interest method, less provision for impairment. A provision for impairment of other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When a receivable is uncollectible, it is written off against the allowance account for other receivables. Subsequent recoveries of amounts previously written off are credited in the statement of comprehensive income. None of the derivative financial instruments is either past due or impaired.

### 5.1.2. Credit Risk – Risk Weighted Assets

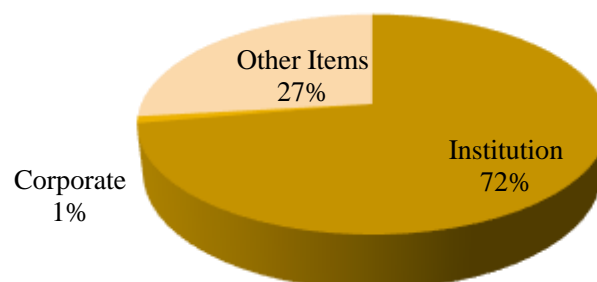
The minimum capital requirement for Credit risk is calculated by exposure using a factor of 8%. The following table shows the risk-weighted exposure amounts and the corresponding minimum capital requirements as at 31 December 2020 for the Company broken down by exposure class.

**Table 11: Exposure classes as at 31 December 2020**

Exposure class	Risk Weighted Assets	Capital Requirements
	€000	€000
Institutions	46	4
Corporates	1	0
Other Items	17	1
<b>Total</b>	<b>64</b>	<b>5</b>

The Regulation requires disclosure for additional asset classes. These have not been shown in the table above as these are nil as at the reporting period.

### Credit Risk Weighted Assets





### 5.1.3. Credit Risk – Analysis of Average exposures and total amount of exposures after accounting offsets

The Company shall disclose the total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation and the average amount of the exposures over the period broken down by different types of exposures as follows:

**Table 12: Analysis of Average Exposures**

Exposure class	Original exposure amount €000	Average Exposure €000
Institutions	232	188
Corporates	1	2
Other Items	18	10
<b>Total</b>	<b>251</b>	<b>202</b>

The Regulation requires disclosure for additional asset classes. These have not been shown in the table above as these are nil as at the reporting period.

### 5.1.4. Credit Risk – Risk Weighted Assets by Geographical distribution of the exposure classes

The Company shall disclose the geographical distribution of the exposures, broken down in significant areas by material exposures classes. The geographical distribution of the exposure classes of the Company is solely in Cyprus.

### 5.1.5. Credit Risk – Distribution of exposures by industry

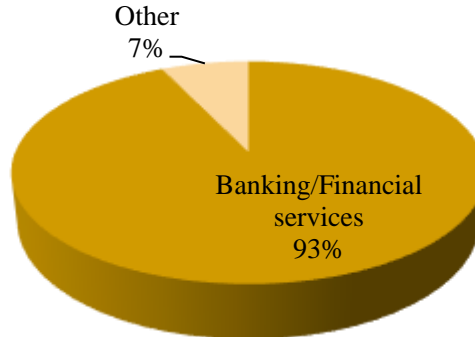
The Company shall disclose the distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs, and further detailed if appropriate as follows:

**Table 13: Exposures by industry**

Exposure class	Banking/Financial services	Other	Total
	€000	€000	€000
Institutions	232	-	232
Corporates	1	-	1
Other Items	-	18	18
<b>Total</b>	<b>233</b>	<b>18</b>	<b>251</b>

The Regulation requires disclosure for additional asset classes. These have not been shown in the table above as these are nil as at the reporting period.

### Exposure by Industry



#### 5.1.6. Residual maturity broken down by exposure classes

The Company shall disclose the residual maturity breakdown of all the exposures, broken down by exposure classes, as follows:

**Table 14: Residual maturity broken down by exposure class**

Exposure class	Residual Maturity $\leq 3$ months	Residual Maturity $> 3$ months	Total
	€000	€000	€000
Institutions	26	206	232
Corporates	1	-	1
Other Items	-	18	18
<b>Total</b>	<b>26</b>	<b>224</b>	<b>251</b>

The Regulation requires disclosure for additional asset classes. These have not been shown in the table above as these are nil as at the reporting period.

#### 5.2. Use of ECAIs

The Company shall disclose the names of the nominated External Credit Assessment Institutions (“ECAIs”) and the exposure values along with the association of the external rating with the credit quality steps. The Company uses external credit ratings from Moody’s. These ratings are used for all relevant exposure classes. The general ECAI association with each credit quality step is as follows:

**Table 15: ECAI Association with each credit quality step**

CQS	Moody's Rating	Corporate	Institutions			Sovereign
			Sovereign method	Credit Assessment method		
				Maturity > 3 months	Maturity 3 months or less	
1	Aaa to Aa3	20%	20%	20%	20%	0%
2	A1 to A3	50%	50%	50%	20%	20%
3	Baa1 to Baa3	100%	100%	50%	20%	50%
4	Ba1 to Ba3	100%	100%	100%	50%	100%
5	B1 to B3	150%	100%	100%	50%	100%
6	Caa1 and below	150%	150%	150%	150%	150%

Exposures to unrated institutions are assigned a risk weight according to the credit quality step to which exposures to the central government of the jurisdiction in which the institution is incorporated, as specified in Article 121 of CRR. Notwithstanding the general treatment mentioned above, short term exposures to institutions could receive a favourable risk weight of 20% if specific conditions are met.

The Other Items category includes tangible assets, debtors and prepayments risk weighted at 100%, cash items in the process of collection risk weighted at 20% and cash in hand risk weighted at 0%.

Exposures to corporate clients were risk weighted by 100% risk factor since they were all unrated and were incorporated in countries with no credit rating or with credit assessment up to credit quality step 5.

**Table 16: Breakdown of exposures by asset class and risk weight under the Standardised approach**

Exposure Class	Risk Weight			Total €000	Of which unrated €000
	0%	20%	100%		
	€000	€000	€000		
Institutions	-	-	1	1	1
Corporates	-	232	-	232	223
Other Items	1	-	17	18	18
<b>Total</b>	<b>1</b>	<b>232</b>	<b>18</b>	<b>251</b>	<b>242</b>

The table below presents exposure values before and after credit risk mitigation of the Group, corresponding to Credit Quality Steps (CQS). The values before credit risk mitigation represent the initial exposure value net of value adjustments while the values after credit risk mitigation represent exposures taking into account the eligible financial collateral funded and unfunded credit protection

**Table 17: Exposures before and after credit risk mitigation as at 31 December 2020**

<b>Credit Quality Step</b>	<b>Exposure values before credit risk mitigation €000</b>	<b>Exposure values after credit risk mitigation €000</b>
CQS 4	9	9
Unrated	242	242
<b>Total</b>	<b>251</b>	<b>251</b>

### 5.3. Market Risk

Market risk can be defined as the risk of losses in on and off-balance sheet positions arising from adverse movements in market prices. From a regulatory perspective, market risk stems from all foreign exchange risk positions in the whole balance sheet. As a “Limited Licence” CIF, the Company does not deal for its own account. Market risk is therefore limited to movements in foreign exchange rates.

The Company’s market risk exposure for the period up to 31 December 2020 was zero.

#### 5.3.1. Foreign Exchange Risk

The Company’s reporting currency is Euro. Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. If the sum of the Company’s overall net foreign-exchange position and its net gold position exceeds 2% of its total own funds, the Company calculates own funds requirements for foreign exchange risk. The own funds requirement for foreign exchange risk is the sum of its overall net foreign-exchange positions and its net gold position in the reporting currency, multiplied by 8%.

For the period as at 31 December 2020, the overall net foreign-exchange position and its net gold position was less than 2% of its total own funds and therefore no capital requirements were attributed for foreign exchange risk. The Management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

#### Closely Correlated Currencies

Following the EBA’s Final draft Implementing Technical Standards on Closely Correlated Currencies under Article 354 (3) of CRR, the Company may apply lower own funds requirements against positions in relevant closely correlated currencies as those are disclosed by EBA. In this respect, for the calculation of the foreign exchange risk for matched positions on closely correlated currencies, a capital requirement of 4% instead of 8% is used.

As at 31 December 2020 the Company’s capital requirements for the FX risk was zero.

#### 5.3.2. Interest Rate Risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Company’s income and operating cash flows are substantially

independent of changes in market interest rates. Other than cash at bank, which attracts interest at normal commercial rates, the Group has no other significant interest bearing financial assets or liabilities. The Company's income and operating cash flows are substantially independent of changes in market interest rates as the Company has no significant interest-bearing assets and liabilities. The bank balances held in current accounts have no significant interest. The Company's management monitors the interest rate fluctuations on a continuous basis and acts accordingly. Moreover, interest rate risk shall be further assessed in the context of ICAAP.

#### 5.4. Operational Risk

Operational risk is the risk of loss arising from fraud, unauthorized activities, error, omission, inefficiency, systems failure or external events. It is inherent in every business organization and covers a wide range of issues. The following list presents some event-type categories, included in operational risk, with some examples for each category:

<b>Internal Fraud</b>	<ul style="list-style-type: none"> <li>• misappropriation of assets;</li> <li>• tax evasion;</li> <li>• intentional mismarking of positions;</li> <li>• bribery.</li> </ul>
<b>External Fraud</b>	<ul style="list-style-type: none"> <li>• theft of information;</li> <li>• hacking damage;</li> <li>• third-party theft;</li> <li>• forgery.</li> </ul>
<b>Employment Practices and Workplace Safety</b>	<ul style="list-style-type: none"> <li>• discrimination;</li> <li>• workers compensation;</li> <li>• employee health;</li> <li>• safety.</li> </ul>
<b>Clients, Products, &amp; Business Practice</b>	<ul style="list-style-type: none"> <li>• market manipulation;</li> <li>• antitrust;</li> <li>• improper trade;</li> </ul>
<b>Damage to physical assets</b>	<ul style="list-style-type: none"> <li>• damage to physical assets from a natural disaster, e.g. earthquake</li> </ul>
<b>Business Disruption &amp; Systems Failures</b>	<ul style="list-style-type: none"> <li>• utility disruptions;</li> <li>• software failures;</li> <li>• hardware failures.</li> </ul>
<b>Execution, Delivery, &amp; Process Management</b>	<ul style="list-style-type: none"> <li>• data entry errors;</li> <li>• accounting errors;</li> <li>• failed mandatory reporting;</li> <li>• negligent loss of Client assets.</li> </ul>

The Company manages operational risk through a control-based environment in which processes are documented and transactions are reconciled and monitored. This is supported by continuous monitoring of operational risk incidents to ensure that past failures are not repeated.

Furthermore, the Company has in place policies and processes whose implementation assists with the evaluation and management of any exposures to operational risk.

The Company has implemented an operational risk management framework designed to ensure that operational risks are assessed, mitigated and reported in a consistent manner consisting of, inter alia, the following components:

- Maintaining a four-eye structure and implementing board oversight over the strategic decisions made by the heads of departments;
- A Disaster Recovery Plan has been designed in order to be used in the event of a force majeure affecting the Company's internal systems and databases; and
- Maintenance of Risk Registers in the Context of the ICAAP;
- A Business Continuity Plan has been implemented which helps protect all of the Company's information databases including data, records and facilities.
- The majority of actions occurring in the Company's systems are automated and therefore it is less likely that a human error will occur;
- Review of risks and controls as part of the Internal Audit function;
- Regular review and updating of the Company's policies;

#### **5.4.1. Fixed Overheads Requirements**

Following the CRDIV implementation, Operational Risk is replaced by Fixed Overheads requirements for "Limited Licence" CIFs (under Article 95(1) of the CRR, pursuant to Article 97 of the CRR).

The purpose of this new requirement is to enable CIFs to protect their investors in case of winding down or restructuring their activities and to hold sufficient financial resources to withstand operational expenses over an appropriate period of time. In this respect, CIFs are required to hold eligible capital of at least one-quarter of the fixed overheads of the previous year based on the most recent audited annual financial statements, or projected fixed overheads in the case where a CIF has not completed business for one year.

In addition to holding eligible capital of at least one-quarter of the fixed overheads of the previous year, CIFs have to calculate their total risk exposure based on fixed overheads. In this respect, the total eligible capital is €229k which is greater than €138k, the fixed overheads requirement.

CIFs have to calculate their total risk exposure based on fixed overheads. The Total Risk Exposure Amount for "Limited Licence" CIFs is the greater of the Total risk exposure amount (excluding Operational Risk) and the Fixed Overhead of the preceding year (or projected expenses as applicable) (x 12.5 x 25%).

The Company's Fixed Overheads Risk Exposure amount based on the Audited Financial Statements for the year 2020 is provided by the table below:

**Table 18: Fixed Overheads Risk Exposure amount analysis**

<b>Fixed Overheads</b>	<b>Fixed Overheads Requirements</b>	<b>Fixed Overheads Risk Exposure Amount</b>	<b>Additional Exposure Amount</b>	<b>Total Risk Exposure Amount</b>
<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
553	138	1,728	1,663	1,728

In this respect, the Fixed Overheads risk exposure amount is €1,728k which is more than the sum of the Credit Risk and Market Risk Capital Requirements which is €64k.

## **6. OTHER RISKS**

### **6.1. Concentration Risk**

Concentration Risk includes large individual exposures and significant exposures to companies whose likelihood of default is driven by common underlying factors such as the economy, geographical location, instrument type etc.

Concentration risk was partly addressed through diversification of counterparties, namely banking institutions. Moreover, the Company's experience in the collection of trade receivables has never caused debts which are past due and have to be impaired. The company has a policy in place to monitor debts overdue by preparing debtors ageing reports.

#### **Large Exposures**

The Company shall disclose any additional capital requirements derived from large exposures in the Company's trading book. A large exposure is defined as the total exposure of a firm to a client or group of connected clients, whether in the banking book or trading book or both and its value is equal to or exceeds 10% of its eligible capital.

Where the amount of €150 million is higher than 25 % of the institution's eligible capital the value of the exposure, after taking into account the effect of credit risk mitigation in accordance with Articles 399 to 403 shall not exceed a reasonable limit in terms of the institution's eligible capital. That limit shall be determined by the institution in accordance with the policies and procedures referred to in Article 81 of Directive 2013/36/EU, to address and control concentration risk. This limit shall not exceed 100 % of the institution's eligible capital.

The Company is not subject to the Large Exposures regime, in accordance with Article 388 of the CRR due to the fact that it is a "Limited Licence" CIF (under Articles 95(1) of the CRR).

Nevertheless, according to Paragraph 61 of the Directive, Limitations on exposures to directors and shareholders, a CIF is not allowed to have exposures to a director more than 1% and to a shareholder that is not an institution, more than 2% of its eligible capital. Exposures to shareholders and directors are monitored and kept within the limits. As at 31 December 2020 the Company had no exposures above the limits.

Upon the implementation of the new prudential framework, Investment Firms shall monitor and control their large exposures in order to ensure that are compliant with the maximum allowable limits set by Article 37 of the IFR.

### **6.2. Reputation Risk**

Reputation risk is the current or prospective risk to earnings and capital arising from an adverse perception of the image of the Company on the part of customers, counterparties, shareholders, investors or regulators. Reputation risk could be triggered by poor performance, the loss of one or more of the Company's key directors, the loss of large customers, poor customer service, fraud or theft, customer claims and legal action, regulatory fines.



The Company has transparent policies and procedures in place when dealing with possible customer complaints in order to provide the best possible assistance and service under such circumstances. The possibility of having to deal with customer claims is very low as the Company provides high quality services to customers.

### **6.3. Strategic Risk**

Strategic Risk could occur as a result of adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment. The Company's exposure to strategic risk is moderate as policies and procedures to minimize this type of risk are implemented in the overall strategy of the Company.

### **6.4. Business Risk**

Business Risk includes the current or prospective risk to earnings and capital arising from changes in the business environment including the effects of deterioration in economic conditions. Research on economic and market forecasts are conducted with a view to minimize the Company's exposure to business risk. These are analyzed and taken into consideration when implementing the Company's strategy.

### **6.5. Capital Risk Management**

Capital Risk is the risk that the Company will not comply with capital adequacy requirements. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Company has a regulatory obligation to monitor and implement policies and procedures for capital risk management. Specifically, the Company is required to test its capital against regulatory requirements and has to maintain a minimum level of capital. This ultimately ensures the going concern of the Company. Such procedures are explained in the Procedures Manual of the Company.

The Company is further required to report on its capital adequacy quarterly and has to maintain at all times a minimum total capital adequacy ratio which is set at 8%. The capital adequacy ratio expresses the capital base of the Company as a proportion of the total risk weighted assets. Management monitors such reporting and has policies and procedures in place to help meet the specific regulatory requirements. This is achieved through the preparation on a monthly basis of management accounts to monitor the financial and capital position of the Company.

### **6.6. Regulatory Risk**

Regulatory risk is the risk the Company faces by not complying with relevant Laws and Directives issued by its supervisory body. If materialised, regulatory risk could trigger the effects of reputation and strategic risk. The Company has documented procedures and policies based on the requirements of relevant Laws and Directives issued by the Commission; these can be found in the Procedures Manual. Compliance with these procedures and policies are further assessed and reviewed by the Company's Internal Auditors and suggestions for improvement are implemented

by management. The Internal Auditors evaluate and test the effectiveness of the Company's control framework at least annually. Therefore the risk of non-compliance is very low.

### **6.7. Legal and Compliance Risk**

Legal and Compliance Risk could arise as a result of breaches or non-compliance with legislation, regulations, agreements or ethical standards and have an effect on earnings and capital. Following the replacement of the Law 144(I)/2007 by Law 87(I)/2017 for the purpose of harmonization with MIFID II, several regulatory changes were applied that may cause the Company's exposure to compliance risk. The Company among others is also exposed to legal and compliance risk arising from inability or inadequate arrangements to comply with the requirements related to the:

- Product Governance (Circular C236, Directive DI87-01),
- New rules governing derivatives on virtual currencies (Circular C268),
- Commission Delegated Regulation of 8 June 2016 of the European Parliament and of the Council with regard to regulatory technical standards for the annual publication by investment firms of information on the identity of execution venues and on the quality of execution,
- Policy Statement on the Risk Management Arrangements of Cyprus Investment Firms
- Policy Statement on the replacement of the legal framework governing the operation of the investors compensation fund
- Policy Statement on the Investment-Based Crowdfunding Rules
- Providing Investment Services in CFDs,
- European Securities and Markets Authority Decision (EU) 2019/155 of 23 January 2019 renewing the product intervention measures relating to the marketing, distribution or sale of contracts for differences to retail clients,
- 4<sup>th</sup> AML Directive (Directive (EU) 2015/849)
- 5<sup>th</sup> AML Directive (Directive (EU) 2015/849)
- EMIR Refit

The probability of such risks occurring is relatively low due to the detailed internal procedures and policies implemented by the Company and regular reviews by the Internal Auditors. The structure of the Company is such to promote clear coordination of duties and the management consists of individuals of suitable professional experience, ethos and integrity, who have accepted responsibility for setting and achieving the Company's strategic targets and goals. In addition, the Board meets at least annually to discuss such issues and any suggestions to enhance compliance are implemented by management. Finally and with respect the Implications of NBP, the Company has contractual agreements with solely with European Economic Area regulated entities and as such is not required to maintain a minimum additional capital buffer.

### **6.8. IT Risk**

IT risk could occur as a result of inadequate information technology and processing, or arise from an inadequate IT strategy and policy or inadequate use of the Company's information technology. Specifically, policies have been implemented regarding back-up procedures, software maintenance, hardware maintenance, use of the internet and anti-virus procedures. Materialization of this risk has been minimized to the lowest possible level.

## **6.9. Risk Reporting**

The Company maintains a system in place to record any risk event incurred on a special form duly completed by personnel of each department and is submitted to the Compliance officer and Risk manager when such event occur.

## **6.10. Liquidity Risk**

Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company has policies and procedures with the object of minimizing such losses.

Investment Firms will be requested upon the implementation of the new prudential framework to hold an amount of liquid assets (defined as per the Article 43 of the IFR) equal to at least one third of the fixed overhead requirement.

The Company has already assessed whether it has adequate liquid assets and took the appropriate measures to ensure compliance with the new Liquidity Requirement which will be implemented on 26 June 2021.

## **6.11. Conduct Risk**

Conduct risk is defined as the risk of an action, by an individual, financial institution or the industry as a whole, which leads to customer detriment or, undermines market integrity. This can bring sanctions and negative publicity. Moreover, EBA has defined conduct risk as the current or prospective risk of losses to an institution arising from inappropriate supply of financial services including cases of wilful or negligent misconduct. Consequently, conduct risk arises from failures of designated liquidity providers located in third countries associated with the Company.

Additionally, the Company is exposed to negative balances with its Liquidity Providers, in case of fast-pacing volatile market, where the LP cannot close a position at the Company's stop out limit. Therefore, the Company may be exposed to conduct risk arising from inadequate agreements with the Liquidity Providers and/or with the third parties that hold client's funds.

As part of risk management policy and tools, the Company has procedures in place to diversify its liquidity providers and monitor their financial position on an on-going basis. The financial soundness of the liquidity providers is closely monitored and the company is ready to switch to alternative LPs, if necessary. Furthermore, the receivable/payable amounts with the LPs are monitored on a daily basis. In particular, the Company examines its existing procedures and arrangements with respect to the products offered and services provided.

## **7. REMUNERATION POLICY**

The Company has established a remuneration policy, which its purpose is to set out the remuneration practices of the Company taking into consideration the salaries and benefits of the staff, in accordance with the provisions of Directive as well as the Circular 031 (Circular 031 has been issued in place of for the correct filing purposes) on remuneration policies and practices, where these comply with specific principles in a way and to the extent that is appropriate to the Company's size, internal organization and the nature, scope and complexity of its activities. Furthermore, the Company's remuneration strategy is designed to reward and motivate the people who are committed to maintaining a long term career with the Company and performing their role in the interests of the Company.

The design of the Policy is approved by the people who effectively direct the business of the Company, after taking advice from the compliance function, and implemented by appropriate functions to promote effective corporate governance. The people who effectively direct the business are responsible for the implementation of remuneration policies and practices and for preventing and dealing with any relevant risks, that remuneration policies and practices can create. The Board discusses remuneration policy matters at least annually.

Furthermore, the Policy also benefits from the full support of senior management or, where appropriate, the supervisory function, so that necessary steps can be taken to ensure that relevant persons effectively comply with the conflicts of interest and conduct of business policies and procedures.

Finally, the Policy adopts and maintains measures enabling them to effectively identify where the relevant person fails to act in the best interest of the client and to take remedial action.

### **7.1. Remuneration System**

The Company's remuneration system and policy is concerned with practices of the Company for those categories of staff whose professional activities have a material impact on its risk profile, i.e. the Senior Management and members of the Board; the said practices are established to ensure that the rewards for the executive management are linked to the Company's performance, to provide an incentive to achieve the key business aims and deliver an appropriate link between reward and performance whilst ensuring base salary levels are not set at artificially low levels. The Company uses remuneration as a significant method of attracting and retaining key employees whose talent can contribute to the Company's short and long term success.

The remuneration mechanisms employed are well known management and human resources tools that take into account the following factors in order to determine the remuneration of each staff member:

- a) knowledge and skills,
- b) the adding value to the business,
- c) the demands (physical and mental) of the job,
- d) amount of training and/or experience needed,
- e) working conditions,

- f) the importance and the amount of responsibility,
- g) market dynamics such as the supply and demand for labour,
- h) financial viability of the Company,
- i) economic performance of the country in which the Company operates,
- j) employee's personal goals and performance evaluation in relation to the objectives set up at the beginning of the period,
- k) employee's professional conduct with clients.
- l) staff's skills, experience and performance, whilst supporting at the same time the long-term business objectives.

The Company's remuneration system takes into account the highly competitive sector in which the Company operates, and the considerable amount of resources the Company invests in each member of the staff. The remuneration includes all forms of benefits provided by the Company to its staff and can be Financial or non-Financial remuneration.

It is noted that the Company has taken into account its size, internal organisation and the nature, the scope and the complexity of its activities and it does not deem necessary the establishment of a specific remuneration committee. Decisions on these matters are taken on a Board level while the remuneration policy is periodically reviewed.

The remuneration varies for different positions/roles depending on each position's actual functional requirements, and it is set at levels which reflect the educational level, experience, accountability, and responsibility needed for a staff member to perform each position/role. The remuneration is also set in comparison with standard market practices employed by the other market participants/ competitors. Furthermore, the employee's personal goals and performance evaluation in relation to the objectives set up at the beginning of the period and the employee's professional conduct with clients are taken into account in order to determine the remuneration.

The total remuneration of staff currently consists of a fixed and a variable component. On the one hand, the Fixed Remuneration (FR) has purpose to attract and retain Company's employees. This fixed amount of remuneration includes salary, fixed pay allowance and other cash allowances and all are determined based on the role and position of each employee, taking into account the experience, seniority, education, responsibility, and market conditions. On the other hand, the variable remuneration is a performance-based remuneration which motivated and rewards staff members based on their results in relation with the targets set in the beginning of the year. This kind of remuneration is not guaranteed and the BoD has determined a maximum percentage of variable remuneration relative to the fixed remuneration in order to ensure a compliant ratio between these two kinds of remuneration. Although, the maximum limit on variable remuneration set at 100% of fixed salary, the limit could be set at 200% upon shareholders' approval according to the Article 94 of Directive 2013/36/EU.

Furthermore there no remuneration is payable under deferral arrangements (with vested or unvested portions). Finally the Company did not pay any non-cash remuneration for the year under review, since the Company does not have non-cash instrument, such as shares or other equivalent non-cash instrument, in place.

The Company recognizes that its remuneration system have some features that increases the mis-selling risk. Therefore, the Company applies effective mitigation controls for each part of the remuneration system.

## **7.2. Link between the pay and performance**

The Company recognises the responsibility that the Staff has in driving its future success and delivering value for the Company and that remuneration is a key component in motivating and compensating its employees. Furthermore, the overall remuneration policy incorporates an annual variable incentive compensation reflecting individual performance and overall performance.

The individual performance is assessed during the annual appraisal process, which establishes objectives for all staff covering both financial and non-financial factors, specific behavioral competencies including compliance and risk management behaviors with regards to the Company's procedures.

Further to the above, the Company implements a performance appraisal method, which is based on a set of Key Performance Indicators, developed for each business unit and its target is to promote the healthy competition amongst personnel, analysis of weak and strong sides of each employee performance-based and give feedback to the staff member in order to motive them to be improved. At the most of the times, the performance appraisal takes place in a multiyear framework in order to ensure that the appraisal process assess employee's long-term performance. However, sometimes the performance appraisal is performed on medium and short-term basis, and the performance indicators of this type of performance appraisal include quantitative as well as qualitative criteria. The appraisal is being performed as follows:

- Objectives are set at the end of each year (depending on the department appraisal process) defining what the Company functions, departments and individuals are expected to achieve during the next year.
- Performance checks and feedbacks: managers provide support and feedback to the concerned staff every 6 months, during formal or informal performance reviews; the aim is to assist the staff to develop their skills and competencies.
- 6 Months Performance review.

The Company shall ensure that where Remuneration is linked with performance, the total amount of Remuneration is based on a combination of the performance assessment of:

- the individual's objectives /goals
- the business unit objectives / goalsand
- the overall results of the Company.

A set of qualitative and quantitative criteria (quantitative as well as qualitative criteria are taken into account; 6 months performance evaluation and performance rating are taken into account),

If deemed appropriate, a salary revision is proposed, which is then approved by the Company's Board of Directors.



The Company's performance appraisal system considers, amongst others, the following qualitative criteria which may change from time to time:

- Staff's contribution towards achieving the Company's goal of servicing its clients ethically and in the best possible quality
- Staff's overall behavior within the Company (way of conducting oneself with Management and other colleagues)
- Staff's awareness of the impact of his/her action on the Company's brand, colleagues and oneself
- Being flexible to accommodate clients', colleagues' and Management's needs with regards to the way of conducting business
- Demonstrate proficient technical knowledge of the products, platform and trading activities and how these are carried out
- Attending Cyprus Securities and Exchange Commission's seminars and obtaining relevant certificates

### **7.3. Remuneration of Senior Management Personnel and Directors**

The remuneration policy of the Company is intended to ensure that the Company will attract and retain the most qualified Senior Management Personnel and Directors. As stated above, the criteria used for determining the remuneration of the Company's directors are segregated into quantitative and the qualitative criteria.

The quantitative remuneration criteria mostly rely on numeric and financial data such as the Company's performance and the individual performance evaluation and ratings of each member of the staff whose professional activities affect the risk profile of the firm. In addition to the quantitative criteria, the Company has put in place qualitative criteria which include compliance with regulatory requirements and internal procedures, fair treatment of clients and client satisfaction.

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

The remuneration of the senior management personnel of the Company, including Board are shown in the following tables:



**Table 19: Remuneration analysis split by Senior Management and key management personnel**

2020	Executive Directors	Key Management personnel	Non-Executive Directors
<b>Fixed reward</b>	37,385	114,759	10,000
<b>Variable reward</b>	-	-	-
<b>Total</b>	<b>37,385</b>	<b>114,759</b>	<b>10,000</b>
<b>Number of beneficiaries</b>	<b>2</b>	<b>3</b>	<b>2</b>

\*The Variable to Fixed remuneration ratio as at 31 December 2020 was 0%

Companies are required to disclose the number of natural persons that are remunerated €1mln or more per financial year, in pay brackets of €1mln, including their job responsibilities, the business area involved and the main elements of salary, bonus, long-term award and pension contribution. Nevertheless, currently there are no natural persons at the Company that are remunerated €1mln or more per financial year and as such the above disclosure is not applicable to the Company. No sign-on payments have been awarded during 2020, while no severance payments were paid during the year. Furthermore, aggregate remuneration analyzed by business area is presented below:

**Table 20: Aggregate remuneration analysis by business area**

Business Area	Aggregate Remuneration €
Control Functions	72,047
Brokerage Department	35,750
Administration-Back Office	44,347
<b>Total</b>	<b>152,144</b>

\*Control functions include the Executive Directors and Compliance Department.