REPORT

# PILLAR III

# DISCLOSURES

**FOR THE FINANCIAL YEAR ENDED DECEMBER 31ST 2023**

**JFD GROUP LTD**

REPORT

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# 1. INTRODUCTION

## 1.1. Company Information

JFD Group Ltd (the "**Company**") is a Cyprus Investment Firm ("**CIF**") incorporated in the Republic of Cyprus with Registration Number HE 282265 and regulated by the Cyprus Securities and Exchange Commission ("**CySEC**" and/or "**Commission**") under license number 150/11.

The Company's license was granted by the Commission on the 5th of August 2011. The CIF's License was subsequently amended on the 30th of October 2012 to include the investment service of Portfolio Management and on the 11th of April 2017 was again amended to include the service of Investment Advice. Accordingly, on 25th of April 2017, CySEC approved the Company's request for offering services on CFDs relating to virtual currencies. Finally, on the 05th of April 2021, the Company has obtained CySEC's approval for further extending its authorization and include under its list of services the investment service of Dealing on Own Account. The Company during the year under review has activated and/or initiated the investment service of Dealing on Own Account.

Further information as to the investment and ancillary services with regards to the financial instruments offered by the Company pursuant to its license are presented in the table below:

**Company's License Information (based on the First Appendix of Law 87(I)/2017):**

| | | Investment services and activities | | | | | | | | | Ancillary services | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Financial Instruments | 1 | ✓ | ✓ | ✓ | ✓ | ✓ | - | - | - | - | ✓ | ✓ | | | ✓ | - | - |
| | 2 | ✓ | ✓ | - | ✓ | ✓ | - | - | - | - | ✓ | ✓ | | | ✓ | - | - |
| | 3 | ✓ | ✓ | - | ✓ | ✓ | - | - | - | - | ✓ | ✓ | | | ✓ | - | - |
| | 4 | ✓ | ✓ | - | ✓ | ✓ | - | - | - | - | ✓ | ✓ | | | ✓ | - | - |
| | 5 | ✓ | ✓ | - | ✓ | ✓ | - | - | - | - | ✓ | ✓ | | | ✓ | - | - |
| | 6 | ✓ | ✓ | - | ✓ | ✓ | - | - | - | - | ✓ | ✓ | - | ✓ | ✓ | - | - |
| | 7 | ✓ | ✓ | - | ✓ | ✓ | - | - | - | - | ✓ | ✓ | | | ✓ | - | - |
| | 8 | ✓ | ✓ | - | ✓ | ✓ | - | - | - | - | ✓ | ✓ | | | ✓ | - | - |
| | 9 | ✓ | ✓ | ✓ | ✓ | ✓ | - | - | - | - | ✓ | ✓ | | | ✓ | - | - |
| | 10 | ✓ | ✓ | - | ✓ | ✓ | - | - | - | - | ✓ | ✓ | | | ✓ | - | - |

## 1.2. Regulatory Framework

The capital adequacy and overall risk management requirements pursuant to EU Capital Requirements Directive 2013/36/EU (“**CRD IV**”) and EU Regulation No. 575/2013 (“**Regulation**” and/or “**CRR**”) have been replaced by amended prudential rules.

Specifically, the new prudential regime for Investment Firms has been approved by the European Parliament in December 2019 and is comprised of the Investment Firm Regulation on the prudential requirements (EU) 2019/2033 (“**IFR**”) and Investment Firm Directive on the prudential supervision of Investment Firms (EU) 2019/2034 (“**IFD”**).

IFR on the prudential requirements of Investment Firms became directly applicable in all EU Member States on 26th of June 2021 whereas IFD on the prudential supervision of IFs has been harmonized into Cyprus legislation through the issuance of the Cyprus Law on the Prudential Supervision of CIFs of 2021 (L.165(I)/2021).

The new prudential framework introduced many changes such to the methodologies that investment firms are required to apply for quantifying their exposure to risk and deriving their Capital Adequacy Ratio as well as to the required level of initial capital as per the Internal Capital Adequacy & Risk Assessment (“**ICARA**”) Process and a newly introduced Liquidity Requirement according to which, among others, Firms are required to maintain liquidity levels equal to at least one third of their Fixed Overhead Requirement.

In addition, the new prudential framework introduced a new classification for Firms. The Company is classified as Class 2 CIF and is required to hold €750K of initial capital as at 31st of December 2023, in accordance with Article 14 of the IFR and Article 9 of the IFD.

The IFR/IFD prudential framework consists of a three (3) Pillar approach, used to regulate, supervise and improve the risk management of firms. The three (3) Pillars and their applicability to the Company, are summarized below:

- **Pillar I “Minimum Capital Requirements”:** covers the requirement of the Company to maintain at all times a sufficient amount of capital above the minimum requirement in relation to certain key risks, as calculated using prescribed methods.

- **Pillar II "ICARA and Supervisory Review and Evaluation Process ("SREP")"**: which assesses the internal capital adequacy processes and whether additional capital is required over and above the Pillar I and provides for the monitoring and self-assessment of a Firm's capital adequacy and internal processes.

- **Pillar III "Market Discipline":** ensures the promotion of market discipline through the disclosure of the Company's regulatory requirements, risk management and risk governance policies and procedures, allowing market participants to view and compare meaningful information relating to the Company.

The Company updates its ICARA report annually and upon CySEC's request the ICARA Report shall be submitted to CySEC. The Company has also noted the content of the new IFR/IFD.

## 1.3. Sanctions and Restrictive Measures in response to Russian Invasion to Ukraine

Since March 2014, the EU has progressively imposed restrictive measures (sanctions) against Russia, initially in response to the illegal annexation of Crimea and Sevastopol and the deliberate destabilization of Ukraine. On 23rd February 2022, EU expanded the sanctions in response to the recognition of the non-government controlled areas of the Donetsk and Luhansk oblasts of Ukraine and the ordering of Russian armed forces into those areas. Following the 24th of February 2022, in response to Russia's military aggression against Ukraine, the EU has massively expanded the Sanctions and Restrictive Measures.

In response to the crisis in Ukraine, during the year 2022, the EU Council published nine (9) packages, a compliance package and a maintenance and alignment package. Specifically, through the so-called Sanctions and Restrictive Measures added a significant number of persons and entities to the sanctions list and adopted unprecedented measures with the aim of significantly weakening Russia's economic base, depriving it of critical technologies and markets, and significantly curtailing its ability to wage war.

The crisis is increasingly affecting economic and global financial markets and exacerbating ongoing economic challenges, including issues such as rising inflation and global supply-chain disruption. Because of its broader impact on these macroeconomic conditions, many companies globally and locally may need to consider the crisis effect on both operational and financial reporting matters.

The degree to which entities are or will be affected by them largely depends on their operations, the nature and duration of uncertain and unpredictable events, such as further military action, additional sanctions, and reactions to ongoing developments by global financial markets.

The Company is continuously monitoring the situation and is continuously being kept informed for the issuance of any Sanctions and Restrictive Measures Package and/or Circular by CySEC through the continuous monitoring of the section "Sanctions/Restrictive Measures" on CySEC's website and through RSS services. In addition, it has performed a test review of its clients in order to ensure that it did not maintain any business relationship with any individual and/or legal entity mentioned on the Packages.

The Company, as of today did not experience any disruption in its operations due to the Sanctions and Restrictive Measures imposed by EU.

### 1.4.Scope of the Report

The Company as a CIF, pursuant Section 37 of the L.165(I)/2021 and in accordance with Part Six of the IFR is required to publish, on an annual basis the Pillar III Disclosures (the "**Pillar III Disclosures**" and/or the "**Report**").

The Report is prepared on an individual (solo) basis since as at 31st of December 2023 the Company did not fall under consolidated supervision based on the relevant provisions of the IFR and IFD.

The figures included in Pillar III Disclosures are based on the Audited Financial Statements of the Company for the year ended 31st of December 2023. The external auditors of the Company have provided an independent conclusion on the fair presentation of the disclosures in accordance with the regulatory requirements imposed by the CySEC

The Pillar III Disclosures report can be found available online at the Company's website at www.jfdbrokers.com/en/legal.

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

## 2. DUTIES OF THE BOARD OF DIRECTORS

The Board of Directors ("**BoD**") of the Company has the ultimate responsibility for establishing a risk management framework, which ensures sound system of internal controls and risk management policies are in place to identify, measure, monitor and/or manage the major risks faced by the Company. The BoD defines, oversees and is responsible for the implementation of the governance arrangements that ensure effective and prudent management of the Company, including the segregation of duties within the entity and the prevention of conflict of interest, and in a manner, that promotes the integrity of the market and the interest of the client pursuant to the provisions of the regulatory framework.

Specifically, the BoD shall:

- have the overall responsibility of the Company and approve and oversee the implementation of the Company's strategic objectives, risk prevention strategy and internal governance
- set the risk appetite and the overall risk tolerance levels appropriate for the size, scale and strategic growth objectives of the Company
- must ensure the integrity of the accounting and financial reporting systems, including financial and operational controls and compliance with the legislation and relevant standard;
- must oversee the process of disclosure and announcement;
- must be responsible for providing effective supervision of senior management;

The Company maintains a Four-Eye principle (the "**4-Eyes**"). The 4-Eyes principle ensures the separation of power and authority regarding crucial functions of the Company. The adequacy and effectiveness of internal systems and controls are reviewed, based on data and information produced by the internal and external auditors or other regulatory authorities.

As with all Investment Firms, the Company is exposed to a variety of risks. The information provided in this report is based on procedures followed by the BoD and Management to identify and manage risks for the year ended 31st of December 2023.

The Company's Board as of 31.12.2023 was comprised of one (1) executive and three (3) non-executive Directors.

## 3. RISK MANAGEMENT FRAMEWORK

JFD Group Ltd aims in having a corporate governance, risk management and a control framework appropriate to the size of its business in order to ensure that the level of risk it faces is consistent with its corporate objectives and its level of risk tolerance.

To achieve this, a comprehensive risk management framework is implemented for the identification, assessment, monitoring and control of all relevant risks (the "**Framework**"). The includes processes in place to manage the risks arising from the Firm's financial services activities including risk to clients, risk to firm and risk to market. The framework also enables the Company to continually align its business objectives against a background of changing risks and uncertainty.

### 3.1. Risk Management Governance

The Company has put in place specific monitoring controls and limits in order to ensure that the Company maintains at all times adequate level of own funds in line with the risk appetite, in compliance with the prudential requirements and to ensure that in the event where risks materialize losses are absorbed.

The BoD of the Company is assisted in its oversight function by establishing a permanent Risk Management Committee, the duties and role of it is described in detail below.

**A. Risk Management Committee**

The Company as part of the extension of its operating license for the provision of the investment services "Dealing on own account", during 2022 decided to establish a Risk Management Committee (the "**Committee**") for the oversight and approval of its enterprise risk management framework.

The Committee is comprised of the following members:

1. Demetrios Tsingis (Independent Non-Executive Director)
2. Joseph Tsirakkis (Executive Director)
3. Miroslav Petkov (Risk Manager)

The Risk Management Committee is responsible to:

- advise the Board of Directors on the Company's overall current and future risk appetite and strategy and assist the board of directors in overseeing the implementation of that strategy by senior management.
- monitor and ensure that risk management activities are in the line with the Company's policy and framework.
- ensure that all material risks are identified, measured, and properly reported. The Committee must be actively involved in elaborating the Company's risk strategy and in all material risk management decisions and that it can deliver a complete view of the whole range of risks of the Board of Directors.

The Company appears to have in place 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 risks tolerated by the Company. The Company's BoD is satisfied that these arrangements are appropriate given the risk profile of the Company.

### 3.2. Risk Appetite

Risk appetite defines the level of risk that the Company is willing to assume within its risk capacity in order to achieve its business objectives and strategies, so it can maintain its normal activities in the event of unexpected events. Risk appetite defines the parameters within which the Company can operate and the relevant risks it can assume, both on an individual as well as on an aggregated basis.

The Company's risk appetite strategy is implemented by the Senior Management in collaboration with the BoD and applied by all divisions through an appropriate operational steering system for risks.

Important indicators for determining the Risk Appetite are regularly monitored over the year to detect any events that may result in negative developments on the Company's risk profile. Such events may give rise to remedial action, up to the deployment of a recovery plan in the most severe cases.

The Company's risk profile has remained within normal levels and demonstrated the utmost of due diligence in this evolving situation and many employees are working remotely from their homes without any significant damage on the company's performance and with no negative impact on the level of customer support.

These risks include, among others:

1. Market Risk
2. Operational Risk
3. Compliance Risk
4. Reputational risk
5. Strategic Risk
6. Risks related to IFR/IFD:
    6.1. Risk-to-Client (RtC)
    6.2. Risk-to-Market (RtM)
    6.3. Risk-to-Firm (RtF)
    6.4. Concentration Risk

The risks and controls around them and the risk appetite set by the BoD for each risk, are analyzed further below:

### 3.2.1. Market Risk

Market risk corresponds to the risk of a loss of value on financial instruments arising from changes in market parameters, the volatility of these parameters and correlations between them.

Market risk mainly arises from:

1. **Foreign Exchange Risk**: It is a financial risk that exists when a transaction is denominated in a currency other than the base currency of the company and there is a risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The foreign exchange risk in the Company is effectively managed by the Senior Management who monitor the exchange rate fluctuations on a continuous basis and act accordingly. During the year of review internal software was developed to calculate and distribute the foreign exchange differences. The differences appear when given currency account trades real shares nominated in other currency. For the year under review, the Company's exposure to foreign exchange risk is Euro 15,516.

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. The Company's Senior Management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

3. **Liquidity Risk:** it refers 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 such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities. In accordance with the CySEC clients' money rules, the Company holds in segregated, clearly designated as clients' money bank accounts, all the funds of its clients. Therefore, the Company considers liquidity risk in relation to all clients' trading activity to be significantly low.

### 3.2.2. Operational Risk

Operational risk is the risk of loss arising from inadequacies or failures in internal procedures, systems failure or external events, including low-probability events that entail a high risk of loss.

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 a program of audits undertaken by the Internal Auditors of the company and by continuous monitoring of operational risk incidents to ensure that past failures are not repeated.

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

The Company, in its aim to minimize its operational risk undertakes the following actions:

- In order to facilitate decision making for risk control activities, adequate information is being provided to the Company's Management;
- Implements a strong system of internal controls to ensure that operational losses do not cause material damage to the Company
- Established the "four-eye" principle;
- Implements improvements on its methods of detecting fraudulent activities
- Updates its business continuity and disaster recovery plan

For the calculation of operational risk in relation to the new capital adequacy reporting under IFR the Company uses the Fixed Overhead Requirement which is further analyzed under Paragraph 3.5 below.

### 3.2.3. Compliance Risk

Compliance means acting in accordance with applicable regulatory rules, as well as professional, ethical and internal principles and standards. Legal and Compliance risk could arise as a result of breaches or non-compliance with legislation, regulations, agreements or ethical standards or due to administrative or disciplinary sanctions which could have as effect material financial losses.

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

Finally, different independent compliance policies have been set up within the Company's business lines to identify and prevent any risks of non-compliance.

### 3.2.4. Reputational 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 clients, 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 clients.

In addition, the Company's Board of Directors is made up of high caliber professionals who are recognized in the industry for their integrity and ethos; this adds value to the Company.

### 3.2.5. 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.

### 3.2.6. Risks related to IFR/IFD

IFR/IFD has made substantial changes in the way that investment firms shall calculate their capital requirements. Specifically, the revised capital requirements framework introduces certain additional risks which are collectively referred to as K-Factors.

K-Factors requirements (KFR) is a methodology recommended by the European Banking Authority, in order to capture the range of risks which an investment firm is exposed to. The K-factors essentially replace the CRR credit, market and operational risk approach in order to better calibrate the capital needed to meet the risks of the investment firm. K-factors are quantitative indicators or factors which represent the risks that an investment firm can pose to customers, market/liquidity and the firm itself.

K-factors are divided into the following categories:

1. **Risk-to-Client (RtC):** which covers the risk imposed to the Company's clients resulting from the business activities and services the Company offers. RtC is measured by the following k-factors: assets under management and ongoing advice (K-AUM), client money held (K-CMH), assets safeguarded and administered (K-ASA), and client orders handled (K-COH).

As at 31/12/2023, the Company was exposed to:

| | **K-factor Requirement (amount in thousand)** |
|---|---|
| K-AUM | 25 |
| K-CMH | 25,324 |
| K-ASA | 31,917 |
| K-COH | 175 |

2. **Risk to Market (RtM):** which relates to the market risk for positions the Firm holds in CFDs underlying financial instruments such as foreign currencies, commodities, indices, precious metals, commodities and equity securities. RtM captures net position risk (K-NPR) in accordance with the market risk provisions of CRR or, where permitted by the competent authority for specific types of investment firms which deal on own account through clearing members, based on the total margins required by an investment firm's clearing member (K-CMG).

   As at 31/12/2023, the Company was exposed to:

| | **K-factor Requirement (amount in thousand)** |
|---|---|
| K-NPR | 322 |
| K-CMG | 283 |

*Market risk capital requirements based on NPR*

| | **K-factor Requirement (amount in thousand)** |
|---|---|
| Position risk | 297 |
| Foreign exchange risk | 37 |
| Commodity risk | 25 |
| **Total (NPR)** | 359 |

3. **Risk to Firm (RtF):** which covers the Company's exposures to their trading counterparties (K-TCD), the concentration risk in the Company's large exposures (K-CON), and the operational risk arising from the Company's trading flow which could result from inadequate or failed internal processes, people and systems or from external events (K-DTF).

As at 31/12/2023 the Company was exposed to:

| | K-factor Requirement (amount in thousand) |
|---|---|
| K-TCD | 283 |
| K-DTF | 100.072 |
| K-CON | 0 |

4. **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.
   The Company has no significant concentration of credit risk. Due to these factors, management believes that no additional credit risk beyond any amounts provided for collection losses is inherent in the Company's trade receivables.
   The Company has a policy in place to monitor debts overdue by preparing debtors ageing reports. Fees receivable which are past due the payment period are chased for collection.

## 3.3. Other Risks

### 3.3.1. Money Laundering and Terrorist Financing Risk

Money laundering and terrorist financing risk mainly refers to the risk that the Company may be used as a vehicle to launder money and/or finance terrorism. The Company has established policies, procedures and controls in order to mitigate the money laundering and terrorist financing risks.

Among others, these policies, procedures and controls include the following:

- A risk-based approach that involves specific measures and procedures in assessing, identifying and managing the Money Laundering and Terrorist Financing risks faced by the Company
- Adequate Client due diligence and identification procedures
- Minimum standards of quality of the required identification data for each type of Client (e.g. documents from independent and reliable sources, third party information)
- Obtaining additional data and information from Clients, where this is appropriate and

relevant, for the proper and complete understanding of their activities and source of wealth.

- Monitoring and reviewing the business relationship with clients and potential clients of high-risk countries
- Ensuring that the Company's personnel receive the appropriate training and assistance.

During the year under review, the Company maintained its policies, procedures and controls with respect to money laundering and terrorist financing and provides, inter alia, details and further information with respect to the abovementioned measures.

The aim of the Company is for the materialization of the Money Laundering and Terrorist Financing risk to be minimized to the lowest possible and, as such the Company has initiated a program to supervise and examine in detail any areas identified as a risk and undertake relevant remedy measures/actions, as and when required.

#### 3.3.2. Information Technology Risk

Information Technology (IT) security risks refer to potential threats and vulnerabilities that can compromise the confidentiality, integrity, or availability of an organization's digital assets and data. These risks can have serious consequences, including data breaches, financial losses, reputational damage, and legal liabilities. Most common IT security risks the Company is facing:

* Cyberattacks: Malicious actors use various methods to gain unauthorized access to computer systems, networks, and data. Common cyberattacks include:

* Phishing: Deceptive emails or messages used to trick individuals into revealing sensitive information or downloading malware.

* Ransomware: Malware that encrypts data and demands a ransom for decryption.

* Malware: Software designed to disrupt, damage, or gain unauthorized access to computer systems.

* Insider Threats: Employees or individuals within an organization who misuse their access privileges to steal data or intentionally harm the organization's IT systems.

* Weak Passwords: Inadequate password policies and weak, easily guessable passwords can lead to unauthorized access.

* Unpatched Software: Failing to update and patch software and operating systems can leave systems vulnerable to known exploits.

* Inadequate Access Control: Poorly managed user access permissions can result in unauthorized users gaining access to sensitive data.

* Lack of Encryption: Failure to encrypt sensitive data in transit and at rest can expose it to eavesdropping or theft.

* Social Engineering: Manipulating individuals to divulge confidential information, often through deception and psychological tactics.

* Distributed Denial of Service (DDoS) Attacks: Overwhelming a system or network with traffic to disrupt its availability and functionality.

* Third-Party Risks: Vulnerabilities introduced by third-party vendors or service providers who have access to an organization's systems or data.

* Physical Security: Neglecting physical security measures can lead to theft, unauthorized access, or damage to IT equipment.

* Cloud Security: Misconfigurations in cloud infrastructure, as well as data breaches in cloud services, pose significant risks.

* Mobile Device Security: Inadequate protection for mobile devices can result in data exposure or loss.

* Data Loss: Accidental deletion, corruption, or unauthorized access to data can lead to data loss.

* Regulatory Compliance: Non-compliance with data protection and privacy regulations can result in legal consequences and fines.

* Human Error: Mistakes made by employees, such as sending sensitive information to the wrong recipient or misconfiguring security settings, can lead to security incidents.

To mitigate these IT security risks, organizations should implement comprehensive cybersecurity measures, including but not limited to:

* Firewalls and Intrusion Detection Systems (IDS/IPS): Implement network security measures to detect and prevent unauthorized access and attacks.

* Regular Software Updates and Patch Management: Keep all software and systems up-to-date with security patches.

* Strong Authentication: Enforce the use of strong, unique passwords, multi-factor authentication (MFA), and biometric authentication.

* Security Awareness Training: Educate employees about security best practices and how to recognize and respond to threats.

* Encryption: Encrypt sensitive data both in transit and at rest to protect it from unauthorized access.

* Incident Response Plan: Develop a plan to detect, respond to, and recover from security incidents.

* Vendor Risk Management: Assess and monitor the security practices of third-party vendors.

* Data Backup and Recovery: Regularly back up critical data and test data recovery procedures.

* Compliance with Regulations: Ensure compliance with relevant data protection and cybersecurity regulations.

* Physical Security Measures: Protect physical access to servers, data centers, and other critical infrastructure information Technology (hereinafter, "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 IT.

The Internal Auditor, as part of the annual on-site inspections, evaluated and assessed whether the Company's systems and infrastructure are generally adequate. The results of this assessment showed that the Company maintains generally adequate systems and workspaces while procedures for electronic Chinese Walls in systems are properly in place.

The aim of the Company is for the materialisation of the IT risk to be minimised to the lowest possible level and, as such, the Company shall take the respective rectifying measures, as and when deemed necessary.

Specifically, policies have been implemented and measures have been taken regarding backup procedures, software maintenance, hardware maintenance, internet use, data protection procedures, and disaster recovery, as applicable.

The organization's data protection officer (DPO) independently makes sure that the laws safeguarding the personal data of persons are followed. Articles 37, 38, and 39 of the EU General Data Protection Regulation outline the title, role, and responsibilities of a DPO inside an organisation (GDPR). The appointment of a DPO is mandated in many other nations, and privacy law is increasingly using this practise. The DPO coordinates with Legal, Compliance, Public Policy, and Information Security teams to develop and monitor policies and standards applicable to the business and in compliance with the GDPR.

The CISO shall be exclusively committed towards the data privacy and information-security. The CISO shall ensure adequate protection of digital information assets and develop security strategies to advise the top management on information security risks that affect the enterprise. The CISO coordinates with executive management and provides guidance to the enterprise's information security organization. The CISO's information security programs shall protect the organization's applications and technology whilst enhancing business results.

The ICT Audit obligation will start at 30/06/2024. The abovementioned policies are documented in the Company's Business Continuity and Disaster Recovery Plan.

### 3.3.3. Group Risk

Group Risk could occur as adverse impact due to relationships (financial or non-financial) of the Company with other entities belonging in the same Group. The Company is reliant on certain services from other entities of the Group including the parent company. Lastly the reputation of the group overall, as well as the members of the group are highly correlated with the reputation of JFD.

Management ensures independence between entities to minimize impact of any regulatory or reputational events in other group operations. In the event of group structure change (i.e. new companies added to the Group) the Board and the Risk Committee consider and analyze the risks under such a structure in relation to regulatory, reputational, credit and operational risk.

### 3.4. Liquidity Requirement

Liquidity requirement corresponds to the risk of the Company not being able to meet its cash or collateral requirements. The Table below shows the Company's liquidity requirement as at 31/12/2023 pursuant to IFR:

| | Amount (amount in thousand) |
|---|---|
| **Liquidity Requirement** | **355** |
| **Client guarantees** | |
| **Total liquid assets** | **481** |
| **Unencumbered short-term deposits** | 481 |
| **Total eligible receivables due within 30 days** | 0 |
| **Level 1 assets** | **0** |
| Coins and banknotes | 0 |
| Withdrawable central bank reserves | 0 |
| Central bank assets | 0 |
| Central government assets | 0 |
| Regional government/local authorities assets | 0 |
| Public Sector Entity assets | 0 |

| | |
|---|---|
| Recognisable domestic and foreign currency central government and central bank assets | 0 |
| Credit institution (protected by Member State government, promotional lender) assets | 0 |
| Multilateral development bank and international organisations assets | 0 |
| Extremely high-quality covered bonds | 0 |
| **Level 2A assets** | 0 |
| Regional government/local authorities or Public Sector Entities assets (Member State, RW20 %) | 0 |
| Central bank or central/regional government or local authorities or Public Sector Entities assets (Third Country, RW20 %) | 0 |
| High quality covered bonds (CQS2) | 0 |
| High quality covered bonds (Third Country, CQS1) | 0 |
| Corporate debt securities (CQS1) | 0 |
| **Level 2B assets** | 0 |
| Asset-backed securities | 0 |
| Corporate debt securities | 0 |
| Shares (major stock index) | 0 |
| Restricted-use central bank committed liquidity facilities | 0 |
| High quality covered bonds (RW35 %) | 0 |
| **Qualifying CIU shares/units** | 0 |
| **Total other eligible financial instruments** | 0 |

### 3.5.Fixed Overhead

Fixed Overhead Risk is the risk that the Company does not hold sufficient eligible capital to accommodate fluctuations in a Company's levels of business. The Company, following the implementation of IFR is required to report its Fixed Overhead which essentially substitutes the CRR operational risk and which is calculated as a quarter of the fixed overheads of the preceding year. The Table below indicates the calculations used for the Company's reporting as at 31/12/2023:

| | Amount (amount in thousand) |
|---|---|
| **Fixed Overhead Requirement** | **1,066** |
| **Annual Fixed Overheads of the previous year after distribution of profits** | **4,265** |
| **Total expenses of the previous year after distribution of profits** | 6,244 |
| **(-) Total deductions** | -1,979 |
| (-) Staff bonuses and other remuneration | 0 |
| (-) Employees', directors' and partners' shares in net profits | 0 |
| (-) Other discretionary payments of profits and variable remuneration | 0 |
| (-) Shared commission and fees payable | 0 |
| (-) Fees, brokerage and other charges paid to CCPs that are charged to customers | -1.537 |
| (-) Fees to tied agents | 0 |
| (-) Interest paid to customers on client money where this is at the firm's discretion | 0 |
| (-) Non-recurring expenses from non-ordinary activities | 0 |
| (-) Expenditures from taxes | -17 |
| (-) Losses from trading on own account in financial instruments | -425 |
| (-) Contract based profit and loss transfer agreements | 0 |
| (-) Expenditure on raw materials | 0 |
| (-) Payments into a fund for general banking risk | 0 |
| (-) Expenses related to items that have already been deducted from own funds | 0 |

| | |
|---|---|
| **Projected fixed overheads of the current year** | 5,000 |
| **Variation of fixed overheads (%)** | **17.23%** |

## 4. MINIMUM CAPITAL REQUIREMENT

As previously mentioned, the new IFR & IFD framework introduces a different approach for calculating the Minimum Capital Requirements, which for Class 2 investment firms dictates that they are derived by taking the highest of the Fixed Overhead Requirement ("FOR"), the Permanent Minimum Capital Requirement ("PMCR") and the K-factors that apply to each investment firm.

The Minimum Capital Requirement is the initial capital required for authorisation to conduct the relevant investment services. As at 31/12/2023, the Company's Minimum Capital Requirement was EUR 750,000 for offering the services referred to in this Report. In relation to the Company's most recent reported figures under IFR, please refer to Paragraph 6 "Capital Adequacy" below.

## 5. REMUNERATION POLICY

The Company has developed and implemented a Remuneration Policy which is considered appropriate to its size, internal organization and the nature, the scope and the complexity of its activities whilst adhering to the provisions the Investment Services and Activities and Regulated Markets Law of 2017, ESMA/2016/904 and Directive DI144-2014-14 of 2014 of the Cyprus Securities and Exchange Commission for the Prudential Supervision of Financial Firms.

Further and as per to Article 27 of the Commission Delegated Regulation (EU) 2017/565 with regards to organizational requirements for the authorization of investment firms, the Company has to ensure that the Remuneration Policy is not solely or mainly based on quantitative commercial criteria but takes into account appropriate qualitative criteria.

### 5.1. Company's 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, members of the Board of Directors and the Heads of the departments; 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 consider the staff's skills, experience and performance, whilst supporting at the same time the long-term business objectives.

The Company's remuneration system considers the highly competitive sector in which the Company operates, and the considerable amount of resources the Company invests in each member of the staff.

It is noted that the Company has considered its size, internal organization 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 of Directors level while the remuneration policy is periodically reviewed.

The total remuneration of staff currently consists of a fixed component. 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 an employee to perform each position/role. The remuneration is also set in comparison with standard market practices employed by the other market participants/ competitors.

## 5.2.Performance Appraisal

The Company will implement a performance appraisal method, which is based on a set of Key Performance Indicators, developed for each business unit and for the Company as a whole. The appraisal process is performed as follows:

- **Objectives set**: in the beginning of each month and/or quarter (each department is being appraised in different periods) defining what the Company functions, departments and individuals are expected to achieve over an upcoming period of time.
- **Performance checks and feedbacks:** managers provide support and feedback to the concerned staff during the time periods decided, during the daily activities or during formal or informal performance reviews; the aim is to assist the staff to develop their

skills and competencies.

- **Annual performance evaluation:** takes place annually, usually middle of each year.

### 5.3.Remuneration of Key Management Personnel and Directors:

The gross remuneration of the key management personnel of the Company, including Board of Directors, for the financial year ending 31.12.2023, was as shown in the following Table:

| Broken down by Management area | 2023 |
|---|---|
| | € |
| Key Management Personnel Remuneration | 484,984 |
| Directors Remuneration | 227,000 |
| | |
| **Total** | **711,984** |

## 6. NUMBER OF DIRECTORSHIPS HELD BY MEMBERS OF THE BOARD

The members of the Management Body of the Company, given their industry experience, have been taking seats in other company boards. It is noted that Section 9 paragraph 5 of the L. 87(I)/2017 of the Law, determines that executive or non-executive directorships held within the same group shall count as a single directorship.

As at 31/12/2023 the number of directorships held by the members of the Company's BoD are as follows:

| Name | Position in the CIF | Directorships (Executive) | Directorships (Non- Executive) |
|---|---|---|---|
| Iosif Tsirakkis | Executive Director | 1 | - |
| Demetrios Tsingis | Non-Executive Director | - | 3 |
| Enrique Guzman | Non-Executive Director | - | 1 |
| Nicolaos Kelepeniotis | Non – Executive Director | - | 4 |

The Company's Board of Directors is required to assess and review the effectiveness of the policies, arrangements and procedures put in place for the Company to comply with its obligations under the Investment Services and Activities and Regulated Markets Law of 2017 (the "Law"), as subsequently amended or replaced, as well as the relevant CySEC Directives and the CRR, and to take appropriate measures to address any deficiencies.

In particular, when assessing risks, the responsibilities of the Board of Directors and Senior Management may be summarized as follows:

- Approve and periodically review the corporate objectives and risk strategies and policies for managing, monitoring, and mitigating the risks that the Company is or might be exposed to.
- Ensure that all risk management regulatory requirements are applied, and that appropriate systems and controls are introduced
- Establish a suitable internal control system
- Assessing and approving the annual report and taking appropriate actions to remedy any weaknesses and/or deficiencies identified in the annual report.

## 7. CAPITAL ADEQUACY

Capital management and adequacy of liquid funds is a paramount priority for the Company. The Company continuously monitors its capital reserves and risk exposures. This is currently performed in accordance with the Investment Firms Regulation (IFR).

### 7.1. Regulatory Capital

In line with the International Financial Reporting Standards (IFRS) and IFR, the Company's regulatory capital mainly consists of Common Equity Tier 1 Capital, composed primarily of ordinary shares and related share premium accounts and retained earnings.

In some cases, additional capital tiers can come into force such as the Tier 2 Capital which could introduce the use of loans to support the business and operational capital. Such loans are highly regulated and are always subordinated to other claims.

### 7.2. Capital Ratio

The capital (adequacy) ratio is a key metric for a financial institution and is calculated by comparing the institutions' own funds with the highest of the three Capital Requirements (K-Factor Requirement, Fixed Overhead Requirement and Permanent Minimum Capital Requirement) as mentioned in IFR Risks and related requirements section. The calculations always follow a strict set of rules as defined by IFR. The minimum Total Capital Ratio that must be maintained AT ALL times is 100%.

As at 31/12/2023, the Company had a Total Capital Ratio of 112.18%

The Table below illustrates the Company's Capital Adequacy Ratio for each quarter of the year 2023:

| Quarter 2023 | Company's Capital Adequacy Ratio | Comment |
|---|---|---|
| Q1 | 102.68% | reflect IFR/IFD / Change of Capital requirement |
| Q2 | 112.18% | reflect IFR/IFD / Change of Capital requirement |
| Q3 | 108.56% | reflect IFR/IFD / Change of Capital requirement |
| Q4 | 112.18% | reflect IFR/IFD / Change of Capital requirement |

The Company's Own Funds, Capital Requirements and Capital Adequacy Ratio reported as at 31 December 2023, were the following:

| **Own Funds based on unaudited figures** | |
|---|---|
| Share Capital | 9 |
| Share Premium | 2,489 |
| Other reserve | 379 |
| Previous years retained earnings | (1,566) |
| Profit/(Loss) for current yeart 2023 | - |
| Goodwill | - |
| Additional Tier 1: other capital elements, deductions and adjustments. | (114) |
| **Common Equity Tier 1 Capital (CET 1)** | **1,197** |
| Tier 2 Capital | 0 |
| **Total Capital** | **1,197** |
| OWN FUNDS REQUIREMENTS | |
| Permanent minimum Capital (PMC) | 750 |
| Fixed Overhead requirement (FOM) | 1,066 |
| Total K-Factor Requirement (KFR) | 755 |
| **Total own funds requirement** | **1,066** |
| | |
| CET 1 Ratio | **112.18%** |
| Tier 1 Ratio | **112.18%** |
| Own Funds Ratio | **112.18%** |

## 7.3. Capital Management

As part of managing its capital, the Company ensures that its solvency level is always compatible with the following objectives:

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

- Meeting the expectations of the regulator and shareholders

The Company determines its internal capital adequacy thresholds in accordance with the above and the Senior Management is tasked to monitor the capital on a constant basis.

Further to the above, the Company is obligated to calculate and report its capital adequacy on a quarterly basis to the Cyprus Securities and Exchange Commission (the "CySEC").

Below you may find the latest results reported for 2023:

Capital Adequacy/Own Funds Requirements

| | **Dec 31, 2023 (amount in thousand) (Unaudited)** |
|---|---|
| **CET1 Capital** | 1,196 |
| **Tier 1 Capital** | 1,196 |
| **Total Capital** | 1,196 |
| **Permanent Minimum Capital (PMC)** | 750 |
| **Fixed Overhead Requirement (FOR)** | 1,066 |
| **K-Factor Requirement (KFR)** | 755 |
| **Requirement Used** | FOH |
| **Total Own Fund Requirement** | 1,066 |
| **Total Ratio** | 112.18% |
| **CET1 Ratio** | 112.18% |

*EU IF CC1.01 - Composition of regulatory own funds (Investment firms other than small and non-interconnected)*

| | Amounts (in thousand) | Source based on reference numbers/letters of the balance sheet in the audited financial statements |
|---|---|---|
| **Common Equity Tier 1 (CET1) capital: instruments and reserves** | | |
| **OWN FUNDS** | 1,196 | N/A |
| **TIER 1 CAPITAL** | 1,196 | N/A |
| **COMMON EQUITY TIER 1 CAPITAL** | 1,196 | N/A |
| Fully paid up capital instruments | 9 | SC |
| Share premium | 2,489 | SP |
| Retained earnings | -1,566 | RE |
| Accumulated other comprehensive income | 0 | N/A |
| Other reserves | 379 | OR |
| Minority interest given recognition in CET1 capital | 0 | N/A |
| Adjustments to CET1 due to prudential filters | 0 | N/A |
| Other funds | 0 | N/A |
| (-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1 | -1,187 | N/A |
| (-) Own CET1 instruments | 0 | N/A |
| (-) Direct holdings of CET1 instruments | 0 | N/A |
| (-) Indirect holdings of CET1 instruments | 0 | N/A |
| (-) Synthetic holdings of CET1 instruments | 0 | N/A |
| (-) Losses for the current financial year | -1,187 | XXX |
| (-) Goodwill | 0 | N/A |
| (-) Other intangible assets | 0 | N/A |

| | | |
|---|---|---|
| (-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities | 0 | N/A |
| (-) Qualifying holding outside the financial sector which exceeds 15% of own funds | 0 | N/A |
| (-) Total qualifying holdings in undertaking other than financial sector entities which exceeds 60% of its own funds | 0 | N/A |
| (-) CET1 instruments of financial sector entities where the institution does not have a significant investment | 0 | |
| (-) CET1 instruments of financial sector entities where the institution has a significant investment | 0 | N/A |
| (-)Defined benefit pension fund assets | 0 | N/A |
| (-) Other deductions | 0 | N/A |
| CET1: Other capital elements, deductions and adjustments | -114 | |
| **ADDITIONAL TIER 1 CAPITAL** | 0 | N/A |
| Fully paid up, directly issued capital instruments | 0 | N/A |
| Share premium | 0 | N/A |
| (-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1 | 0 | N/A |
| (-) Own AT1 instruments | 0 | N/A |
| (-) Direct holdings of AT1 instruments | 0 | N/A |
| (-) Indirect holdings of AT1 instruments | 0 | N/A |
| (-) Synthetic holdings of AT1 instruments | 0 | N/A |
| (-) AT1 instruments of financial sector entities where the institution does not have a significant investment | 0 | N/A |
| (-) AT1 instruments of financial sector entities where the institution has a significant investment | 0 | N/A |
| (-) Other deductions | 0 | N/A |
| Additional Tier 1: Other capital elements, deductions and adjustments | 0 | N/A |

| | | |
|---|---|---|
| **TIER 2 CAPITAL** | 0 | N/A |
| Fully paid up, directly issued capital instruments | 0 | N/A |
| Share premium | 0 | N/A |
| (-) TOTAL DEDUCTIONS FROM TIER 2 | 0 | N/A |
| (-) Own T2 instruments | 0 | N/A |
| (-) Direct holdings of T2 instruments | 0 | N/A |
| (-) Indirect holdings of T2 instruments | 0 | N/A |
| (-) Synthetic holdings of T2 instruments | 0 | N/A |
| (-) T2 instruments of financial sector entities where the institution does not have a significant investment | 0 | N/A |
| (-) T2 instruments of financial sector entities where the institution has a significant investment | 0 | N/A |
| Tier 2: Other capital elements, deductions and adjustments | 0 | N/A |

EU IFCC2: Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements

| | Balance sheet as in published/unaudited figures | Under regulatory scope of consolidation | Cross reference to EU IF CC1 |
|---|---|---|---|
| | **As at period end** | **As at period end** | |
| **Assets** - *Breakdown by asset classes* | | | |
| Tangible Assets | 834.00 | N/A | FA |
| Cash, cash balances at central banks and other demand deposits | 483.07 | N/A | |
| Other assets | 902.15 | N/A | |
| **Total Assets** | **2,219.22** | **N/A** | **N/A** |
| **Liabilities** - *Breakdown by liability classes* | | | |
| Other liabilities | 896.51 | N/A | |
| **Total Liabilities** | 896.51 | **N/A** | **N/A** |
| **Shareholders' Equity** | | | |
| Ordinary share capital | 9.10 | N/A | SC |
| Share Premium | 2,488.6 | N/A | SP |
| Other reserve | 379.15 | | |
| Retained earnings | -1,554.14 | N/A | RE |
| **Total Shareholders' equity** | **1,322.71** | **N/A** | **N/A** |

EU IF CCA: Own funds: main features of own instruments issued by the firm

| | |
|---|---|
| Issuer | Company |
| Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement) | N/A |
| Public or private placement | Private |
| Governing law(s) of the instrument | Cyprus Companies Law |
| Instrument type (types to be specified by each jurisdiction) | Ordinary shares |
| Amount recognised in regulatory capital (Currency in million, as of most recent reporting date) | EUR0.0091 |
| Nominal amount of instrument | EUR1.00 |
| Issue price | EUR1.00 |
| Redemption price | N/A |
| Accounting classification | Ordinary share capital |
| Original date of issuance | 23/02/2011 |
| Perpetual or dated | N/A |
| Original maturity date | N/A |
| Issuer call subject to prior supervisory approval | N/A |
| Optional call date, contingent call dates and redemption amount | N/A |
| Subsequent call dates, if applicable | N/A |
| *Coupons / dividends* | N/A |
| Fixed or floating dividend/coupon | N/A |
| Coupon rate and any related index | N/A |
| Existence of a dividend stopper | N/A |

| | |
|---|---|
| Fully discretionary, partially discretionary or mandatory (in terms of timing) | N/A |
| Fully discretionary, partially discretionary or mandatory (in terms of amount) | N/A |
| Existence of step up or other incentive to redeem | N/A |
| Noncumulative or cumulative | N/A |
| Convertible or non-convertible | N/A |
| If convertible, conversion trigger(s) | N/A |
| If convertible, fully or partially | N/A |
| If convertible, conversion rate | N/A |
| If convertible, mandatory or optional conversion | N/A |
| If convertible, specify instrument type convertible into | N/A |
| If convertible, specify issuer of instrument it converts into | N/A |
| Write-down features | N/A |
| If write-down, write-down trigger(s) | N/A |
| If write-down, full or partial | N/A |
| If write-down, permanent or temporary | N/A |
| If temporary write-down, description of write-up mechanism | N/A |
| Non-compliant transitioned features | N/A |
| If yes, specify non-compliant features | N/A |
| Link to the full term and conditions of the instrument (signposting) | N/A |

*EU IF CCA: Own funds: main features of own instruments issued by the firm*

| | |
|---|---|
| Issuer | Company |
| Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement) | N/A |
| Public or private placement | Private |
| Governing law(s) of the instrument | Cyprus Companies Law |
| Instrument type (types to be specified by each jurisdiction) | Ordinary shares issued at a premium |
| Amount recognised in regulatory capital (Currency in million, as of most recent reporting date) | EUR |
| Nominal amount of instrument | EUR1.00 |
| Issue price | EUR2.489 |
| Redemption price | N/A |
| Accounting classification | Share premium |
| Original date of issuance | 23/02/2011 |
| Perpetual or dated | N/A |
| Original maturity date | N/A |
| Issuer call subject to prior supervisory approval | N/A |
| Optional call date, contingent call dates and redemption amount | N/A |
| Subsequent call dates, if applicable | N/A |
| *Coupons / dividends* | N/A |
| Fixed or floating dividend/coupon | N/A |
| Coupon rate and any related index | N/A |
| Existence of a dividend stopper | N/A |
| Fully discretionary, partially discretionary or mandatory (in terms of timing) | N/A |

| | |
|---|---|
| Fully discretionary, partially discretionary or mandatory (in terms of amount) | N/A |
| Existence of step up or other incentive to redeem | N/A |
| Noncumulative or cumulative | N/A |
| Convertible or non-convertible | N/A |
| If convertible, conversion trigger(s) | N/A |
| If convertible, fully or partially | N/A |
| If convertible, conversion rate | N/A |
| If convertible, mandatory or optional conversion | N/A |
| If convertible, specify instrument type convertible into | N/A |
| If convertible, specify issuer of instrument it converts into | N/A |
| Write-down features | N/A |
| If write-down, write-down trigger(s) | N/A |
| If write-down, full or partial | N/A |
| If write-down, permanent or temporary | N/A |
| If temporary write-down, description of write-up mechanism | N/A |
| Non-compliant transitioned features | N/A |
| If yes, specify non-compliant features | N/A |
| Link to the full term and conditions of the intrument (signposting) | N/A |

REPORT

## 8. INTERNAL CAPITAL AND RISK ASSESMENT PROCESS

As a result of the introduction of the Investment Firm Directive ("IFD") and Investment Firm Regulation ("IFR"), JFD Group Ltd ("the Company" or the "Firm") has conducted and documented its first Internal Capital Adequacy and Risk Assessment process ("ICARA").

The ICARA process is linked to the Firm's overall risk management, business planning and capital management, with each of these components informing the others. Capital planning takes place annually, or more frequently than annually should the Firm's operations demand it to be so, together with the Firm's financial forecasting process.

The CySEC expects firms to be able to demonstrate how they will meet their regulatory capital requirement through a three to five-year period. This should include the possibility of a severe economic downturn or business event occurring. However, this should not be taken to be an automatic requirement for a firm to hold capital upfront. What is important is that firms are able to demonstrate credible forward thinking (at an appropriately senior level) as to how they would raise such additional capital or take other mitigating action. Where this forward thinking is credible and meets the capital requirements generated by the stress tests, there is no need to make a capital adjustment.

The assessment will need to factor in the likelihood of the events materializing, and that different events might occur at the same time. Companies also need to consider and account for other risks that can reduce the level of their own funds. This may require a more conceptual approach to assessing the risk than that which those familiar with the current ICAAP may be used to, as well as more time and input from senior management and those charged with a firm's governance.

The key stages of a Company's ICARA process should be as follows:

- **Identify and monitor harms**: Operate systems and controls to identify and monitor all material potential harm.
- **Undertake harm mitigation**: Consider and put in place appropriate financial and non-financial mitigants to minimize the likelihood of crystallization and/or impact of the material harm.
- **Undertake business model assessment, planning and forecasting**: Forecasting capital and liquidity needs, both on an ongoing basis and were they to have to wind-down. This must include expected and stressed scenarios.

- **Undertake recovery planning**: Determine appropriate and credible recovery actions to restore own funds or liquid resources where there is a risk of breaching threshold requirements tied to specific intervention points.
- **Undertake wind-down planning**: Set out entity-level credible wind-down plans, including timelines for when and how to execute these plans.
- **Assess the adequacy of own funds and liquidity requirements**: Where, in the absence of adequately mitigating risks through systems

The Company updates its ICARA report annually and upon CySEC's request the ICARA Report shall be submitted to CySEC.