

PROSPERGATE CAPITAL LTD
Disclosure of Information (Pillar 3)
For the year ended December 31st, 2021

April 2022

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1. Introduction

PROSPERGATE CAPITAL LTD (the “Company”) is a Cypriot Investment Firm (“CIF”) regulated by the Cyprus Securities and Exchange Commission (the Commission” or the “CySEC”) with license number 361/18 in line with the L. 87(I)/2017 LAW WHICH PROVIDES FOR THE PROVISION OF INVESTMENT SERVICES, THE EXERCISE OF INVESTMENT ACTIVITIES, THE OPERATION OF REGULATED MARKETS AND OTHER RELATED MATTERS (the “Law”).

On 26 June 2021, most investment firms became subject to a new prudential framework, composed of [Regulation \(EU\) 2019/2033, also known as the Investment Firms Regulation \(IFR\)](#), and [Directive \(EU\) 2019/2034, also known as the Investment Firms Directive \(IFD\)](#).

Pursuant to Article 14 of the Regulation (EU) 2019/2034 (the “Regulation” or “IFR”) and Article 9 of the Directive (EU) 2019/2033 (the “Directive” or “IFD”) the Company is categorised as “Limited Scope” CIF with minimum/initial capital requirement of €75,000.

According to Article 12 of the IFR the Company is deemed to be small and non-interconnected Investment Firm and pursuant to Article 46 of the IFR is required to proceed to limited disclosures (Pillar III disclosures).

The above has resulted to the respective amendments of the Investment Services and Activities and Regulated Markets Law (Law 144(1)/2007) and the implementation of the respective Regulations and the release of Law L.165(I)/2021, for the purpose of harmonization with the actions of the European Directive (IFD) and Regulation (IFR).

Following the implementation of the above, the Company is required to disclose information relating to its capital, the risks that the Company is exposed to, its own funds, its remuneration policies and practices as well as its investment policy. These disclosures are for the year ended 31 December, 2021. The Company’s policy is to meet all required Pillar III disclosure requirements as detailed in the Prudential framework for Investment Firms Capital Requirements Regulations (IFR & IFD).

This report is published and will be available on the Company’s website at www.prospergate.com

1.1. Reporting Frequency

The Company’s policy is to publish the disclosures required 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.

1.2. Verification

The Company’s Pillar 3 disclosures are subject to internal review and validation prior to being submitted to the Board for approval. This includes approval by the CEO, the Risk Manager, the Head of Accounting and External Auditor.

1.3. Reporting Details

The Company reports on a Solo basis and the reporting currency is EUR.

1.4. Non Material, Proprietary or Confidential Information

This document has been prepared to satisfy the Pillar III disclosure requirements set out in the IFR. The Company does not seek any exemption from disclosure on the basis of materiality or on the basis of proprietary or confidential information.

2. Risk Management Objectives and Policies

There is a formal structure for monitoring and managing risks across the Company comprising of detailed risk management frameworks (including policies and supporting documentation) and independent governance and oversight of risk.

To ensure effective risk management the Company has adopted the “three lines of defense” model of governance with clearly defined roles and responsibilities.

First line of defense: Managers are responsible for establishing an effective control framework within their area of operations and identifying and controlling all risks so that they are operating within the organizational risk appetite and are fully compliant with Company policies and where appropriate defined thresholds.

Second line of defense: 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. Risk 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.

Third line of defense: comprises the Internal Audit Function which is responsible for providing assurance to the Board and senior management on the adequacy of design and operational effectiveness of the systems of internal controls.

2.1. Risk Appetite

Risk Appetite limits the risks which the business can accept in pursuit of its strategic objectives. Risk Appetite is formally reviewed annually and is monitored on an ongoing basis for adherence. The Company’s strategy, business plan and capital and liquidity plans are set with reference to Risk Appetite.

The Board approves the Risk Appetite, which defines the level of risk that the Company is prepared to accept to achieve its strategic objectives and is translated into specific risk measures that are tracked, monitored and reported to the Board. The Risk Appetite framework has been designed to create clear links to the strategic long-term plan, capital planning, stress testing and the Company’s

risk management framework. The review and approval process is undertaken at least annually. The Company's Risk Appetite covers the core areas of, Risk to the Clients of the firm, Risk the firm poses to the Market, Risk to the Firm, Concentration risk and Liquidity risk.

The Board approves the Company's business plans, budget, Internal Capital Adequacy Assessment Process (the "ICAAP") and also monitor's the Company's risk profile, capital adequacy, liquidity and concentration position.

2.1.1. Risk Identification

The Risk Identification process provides guidance on the sources to investigate and research in order to identify new and emerging risks and sets out consistent principles, which should be applied.

2.1.2. Risk Assessment

The Risk Assessment process is the means through which the Company understands and estimates the effect of risk on the business and the processes, systems and controls that mitigate those risks to an acceptable level. This is achieved through the documentation and regular update of a detailed Risk Register /Map where all financial and non-financial risks the Company faces are identified and recorded by the Risk Manager as well as the relevant risk management controls. The Risk Register is discussed and finalised during the Risk Management Committee's meetings.

2.1.3. Risk Management Function

The Risk Management Function (the "RMF") operates under the leadership of the Risk Management Officer (the "RMO") who reports directly to the Senior Management and the Board. The Risk Management function comprises by individuals with specific expertise and is structured to provide analysis, challenge, understanding and oversight of each of the principal risks faced by the Company.

2.1.4. Stress Testing

Stress Testing is the process by which the Company's business plans are subjected to severe stress scenarios in order to assess the impact of those potential stresses on the Company's business including the projected capital and liquidity positions.

The Company is required to prepare and make available upon request periodic ICAAP reports which set out future plans, their impact on capital availability and requirements and the risks to capital adequacy under potential stress scenarios.

2.1.5. ICAAP and Approach to assessing adequacy of Internal Capital

The Company, in accordance with EU regulation 2019/2033 (IFR), is implementing an ICAAP procedure in order to evaluate the risks to clients, risks to market and risks to the firm as well as any additional risks that are not covered by the IFR/IFD framework and the calculation of K-Factors. The ICAAP process considers all of the risks faced by the Company, the likely impact of

them if they were to occur, how these risks can be mitigated and the amount of capital that it is prudent to hold against them both currently and in the future.

The Company performs a full ICAAP annually with approval provided by the Board. For this purpose, all departments of the organization will complete the Risk Records Charts. After the evaluation of the complete Risk Records charts, the Risk Manager creates a Risk Register with Assessments. The Financial department prepares Business Plans and Capital Plans for the next 3 years based on rolling P&L and Balance Sheet. The Risk Manager implements Stress Test of the Capital Plan, based on “What if” approach in each department of the Company. All stress tests are then summarized by the Risk Manager, assessed, identified and submitted as a “Stress Test Register” to the Risk Committee and to ICAAP Committee. The Financial department prepares stress tests on the Capital Plan based on Stress Test Register. It also prepares Budget of the Company, based on stress tested Capital Plan. The Financial department compares the calculated Capital Plan and stress tested Capital Plan: Pillar I Risks + Pillar II risks (uncovered Pillar I Risks).

These measures allow the Management to evaluate Gap Analysis (what we have at hands and what we should have), and to create Action Plan to monitor and mitigate the consequences of the risks in order to make the Board of Directors to be able to assess and approve Action Plan along with outcomes of ICAAP.

2.1.6. Control Functions

2.1.6.1. Internal Audit

The Company, taking into account the nature, scale and complexity of its business activities, as well as the nature and the range of its investment services and activities, establishes and maintains an internal audit function through the appointment of a qualified and experienced Internal Auditor.

The Internal Auditor is appointed and reports to the Senior Management and the Board of the Company. The Internal Auditor is separated and independent of the other functions and activities of the Company. The Internal Auditor bears the responsibility to:

- (a) 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
- (b) issue recommendations based on the result carried out in accordance with point (a)
- (c) verify compliance with the recommendations of point (b)
- (d) provides 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.

The Internal Auditor is responsible for applying the Internal Control System (hereinafter, the “ICS”), which confirms the accuracy of the reported data and information. Furthermore, the role of the Internal Auditor is the programming, on an at least annual basis (as applicable), of checks on the degree of application of the required ICS.

The Internal Auditor has clear access to the Company’s personnel and books. Likewise, the Company’s employees have access to the Internal Auditor for the reporting of any significant deviations from the guidelines provided.

The Board ensures that internal audit issues are considered when presented to it by the Internal Auditor and appropriate actions shall be taken. The Board ensures all issues are dealt with and prioritised according to the Board's assessment.

2.1.6.2. Compliance Officer

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.

The Compliance Officer is responsible, inter alia, to:

- a) liaising with all relevant business and support areas within the Company
- b) monitor on a permanent basis and to assess, on a regular basis, the adequacy and effectiveness of the measures, policies and procedures put in place, and the actions taken to address any deficiencies in the firm's compliance with its obligations;
- c) monitor and assess the level of compliance risk that the Company faces, taking into account the investment and ancillary services provided, as well as the scope of financial instruments traded and distributed
- d) monitor the adequacy and effectiveness of the measures and procedures of the Company
- e) advise and assist the relevant persons responsible for carrying out the investment services to be in compliance with the Law.

2.1.6.3. 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. Scope and objectives of the AMLCO:

- a) The improvement of mechanisms used by the Company for counteraction of legalization (laundering) of criminally earned income
- b) 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

- c) 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
- d) 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.

2.1.7. 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, Anti-Money Laundering and Terrorist Financing and Risk Management, Risk and Investment Committees (where applicable) and approves the Company's ICAAP report.

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

2.2. Board Declaration - Adequacy of the Risk Management Arrangements

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

The Board is responsible for reviewing the effectiveness of the Company's risk management arrangements and systems of financial and internal control. These are designed to manage rather than eliminate the risks of not achieving business objectives, and, as such, offer reasonable but not absolute assurance against fraud, material misstatement and loss.

The Board considers that it has in place adequate systems and controls with regard to the Company's profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, to avoid or minimize loss.

2.3. Board Risk Statement

Considering its current nature, scale and complexity of operations, the Company has developed a policy that establishes and applies processes and mechanisms that are most appropriate and effective in monitoring activities.

The operations of the Company expose it to the economies and financial markets and more specifically to a variety of risks, the most material of which are credit risk, market risk, operational risk, compliance risk, regulatory risk, reputational risk and liquidity risk.

The Outbreak of Covid-19 in 2021 has created an unrepresented challenge to the global economy, similar to the one of the latest economic recession. At the same time there was an increase in terms

of grade which was due to ensuring staff welfare, change of procedures with a move to work from home and unfortunate required decrease in workforce.

The Company has taken all necessary steps and adapted its business model to ensure that its employees have access to its technology infrastructures necessary for the completion of their tasks. It has further amended its Business Continuity Plan and monitors closely the financial impact of the pandemic.

The aim is to promptly identify, measure, manage, report and monitor risks that interfere with the achievement of the Company's strategic, operational and financial objectives. The policy includes adjusting the risk profile in line with the Company's stated risk tolerance to respond to new threats and opportunities in order to minimize risks and optimize returns.

Risk appetite measures are integrated into decision making, monitoring and reporting processes, with early warning trigger levels set to drive any required corrective action before overall tolerance levels are reached. Risks are assessed systematically and evaluated as to the probability of a risk scenario occurring, as well as the severity of the consequences should they occur.

The following table sets out a number of key measures used to monitor the Company's risk profile:

Risk Area	Metrics	Comment	Measure as at 31/12/2021
Capital	Common Equity Tier1 (CET1) ratio, Tier 1 ratio and Total Own Funds ratio	The Company's objective is to maintain regulatory ratios well above the minimum thresholds set by CySEC. It therefore aims to maintain its capital ratios at least 2% points above the required level (regulator's current limits are 56% for CET1, 75% for Tier 1 and 100% for Total Own Funds ratio).	CET1 ratio: 416.04% Tier1 ratio: 416.04% Total own funds ratio: 416.04%
Liquidity	Liquid assets	The Company aims to keep its Liquid assets at least 10% above the required level (regulator's current limit is set to 1/3 (or 33%) of fixed overheads requirement).	Liquid Assets as percentage of minimum requirement: 2661%
Credit Risk	Exposure to single financial institution	The Company's objective is to minimize the potential loss from counterparties. It thus aims to limit its exposure to a single financial institution at levels of 80% of its own funds or less (regulator's current limits with regards to financial institutions is 100% of own funds).	Current exposure: 95.7% NOT AVAILABLE

The Company is currently overexposed to a single financial institution. Considering the nature and scale of its operations this is acceptable at this stage. However, it is the Company's top priority to diversify its exposure to a single financial institution for the next year.

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. Own funds consist of the sum of Common Equity Tier 1 capital, Additional Tier 1 Capital and Tier 2 Capital and the Company is required to hold own funds in sufficient quantity and quality in accordance with IFR which sets out the characteristics and conditions for own funds.

The Company throughout the year under review managed 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 initial capital requirement (i.e. €75,000) and fulfilled its obligations by successfully submitting, on a quarterly basis, the CRD IV CoRep Forms and the IFR/IFD Forms once the new regulatory framework came into force on 26th June 2021.

Tier 1 & Tier 2 Regulatory Capital

Investment Firms shall disclose information relating to their own funds. Furthermore, Investment Firms shall disclose a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the Investment Firm. In this respect, the Company's Tier 1 capital is wholly comprised of Common Equity Tier 1 Capital and other reserves.

At 31st of December 2021 the Capital base of the Company was as follows:

OWN FUNDS (CET1+T1)	€000
COMMON EQUITY TIER 1 CAPITAL (CET1)	312
Fully paid up capital instruments	125
Retained earnings	160
Previous years retained earnings	160
Other reserves	50
(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	-
CET1: Other capital elements, deductions and adjustments (<i>Note 1</i>)	23
ADDITIONAL TIER 1 CAPITAL (T1)	-
TIER 2 CAPITAL (T2)	-

Under the Law, Own Funds consists mainly of paid up share capital, retained earnings less any proposed dividends, translation differences, investor compensation fund and un-audited current year losses. Current year profits are not added to own funds unless these are audited.

4. Own Funds requirements

The primary objective of the Company's capital management is to ensure that the Company complies with externally imposed capital requirements and that the Company maintains healthy capital ratios in order to support its business and maximize shareholders' value.

Based on the Company's classification, annual Capital Adequacy Reports are prepared and submitted to the CySEC. The Capital Adequacy Reports is prepared on a solo basis and the reporting currency is Euro.

It should be noted that the Company does not have any material Crypto-asset holdings and the risks emanating from trading in crypto assets, and/or in financial instruments relating to crypto assets for its clients is immaterial. Therefore, no information is included in this report on:

- the exposure amounts of different crypto-asset exposures,
- the capital requirement for such exposures and
- the accounting treatment of such exposures.

It should be noted that the Company does not have any material Crypto-asset holdings and the risks emanating from trading in crypto assets, and/or in financial instruments relating to crypto assets for its own account or for its clients is immaterial. Therefore, no information is included in this report on:

- the exposure amounts of different crypto-asset exposures,
- the capital requirement for such exposures and
- the accounting treatment of such exposures.

At 31st of December 2021 the composition of the Company's Capital base and its capital ratios were as follows:

Item	€000
Own Funds	
Common Equity Tier 1 Capital	312
Additional Tier 1 Capital	-
Tier 1 Capital	312
Tier 2 Capital	-
Own Funds requirement	-
Permanent minimum capital requirement	75
Fixed overhead requirement	39
Total K-Factor Requirement	-
Total own funds requirement	75

According to the Regulation and the Law, the minimum CET1, Tier 1 and Own Funds ratios of the Company should be 56%, 75% and 100% respectively. As at 31 December, 2021, the Company's ratios are presented below and they are higher than the minimum requirements.

Capital Ratios	
CET 1 Ratio	416.04%
Tier 1 Ratio	416.04%
Own Funds Ratio	416.04%

The Company is classified as Class 3 and is therefore required to calculate its Own Funds requirements as the highest of:

- a) its Permanent Minimum Capital (PMC)
- b) Fixed Overheads Requirements (FOR)

where the permanent minimum capital (PMC) of the Company is €75,000 and a summary of the Company's K-Factor and Fixed overheads requirements is provided in the following sections.

4.1. Fixed Overheads Requirement

The fixed overheads requirement shall amount to at least one quarter of the fixed overheads of the preceding year. Investment firms shall use figures resulting from the applicable accounting framework and where an investment firm has not been in business for one year from the date on which it started providing investment services or performing investment activities, it shall use the projected fixed overheads included in its projections for the first 12 months' trading.

At 31st of December 2021 the Company's Capital fixed overhead requirement was as follows:

	€000
Fixed Overhead Requirement	39
Annual Fixed Overheads of the previous year after distribution of profits	157
Total expenses of the previous year after distribution of profits	157
Of which: Fixed expenses incurred on behalf of the investment firms by third parties	-
(-)Total deductions	-

4.2. Liquidity Requirement

An additional requirement for Investment firms is the Liquidity requirement. According to it the company must hold an amount of liquid assets equivalent to at least one third of its fixed overhead requirement.

Liquidity risk is the risk that the Company may not have sufficient liquid financial resources to meet its obligations when they fall due or would have to incur excessive costs to do so. The Company's policy is to maintain adequate liquidity and contingent liquidity to meet its liquidity needs under both normal and stressed conditions. To achieve this, the Company monitors and manages its liquidity needs on an ongoing basis. The Company also ensures that it has sufficient cash on demand to meet expected operational expenses. It also monitors the Company's exposures and diversification avoiding high concentration risk. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. Currently the Company is not subject to any liquidity risk as it maintains Liquid assets above its Liquidity requirement as indicated in the table below.

	€000
Liquidity Requirement	13
Client guarantees	-
Total liquid assets	146

Publication of disclosures

According to the IFR/IFD Framework adopted by CySEC, the risk management disclosures should be included in either the financial statements of the investment firms if these are published, or on their websites. In addition, these disclosures must be verified by the external auditors of the investment firm. The investment firm 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. Verification of these disclosures have been made by the external auditors and sent to CySEC.