



# CRYPTO FINANCE (Brokerage) AG

## REGULATORY DISCLOSURE REQUIREMENTS 2021 ANNUAL REPORT

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31 December 2021



**CRYPTO FINANCE**

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# Regulatory disclosure

## 1 REGULATORY KEY FIGURES (KM1)

	<i>in thousands Swiss Francs</i>	31.12.2021
<b>Eligible equity</b>		
1	Tier 1 capital ratio (CET1)	15'998
2	Tier 1 capital (T1)	15'998
3	Total Capital	22'398
<b>Risk-weighted positions (RWA)</b>		
4	RWA	91'806
4a	Minimum own funds	7'345
<b>Risk-based capital ratio (% of RWA)</b>		
5	CET ratio	17.43%
6	Tier 1 capital ratio	17.43%
7	Total capital ratio	24.40%
<b>CET1-buffer requirement (% of RWA)</b>		
8	Own funds buffer under Basel minimum standards (25% from 2019)	2.50%
9	Anti-cyclical buffer (art. 44a ERV) under Basel minimum standards	0.00%
10	Additional equity buffer of international or national system relevance	0.00%
11	Total buffer requirements under Basel minimum standards in CET1 quality	2.50%
12	Available CET1 to cover buffer requirements under Basel minimum standards (after deduction of CET1 to cover minimum requirements and where applicable to cover TLAC requirements)	11.43%
<b>Target capital ratios under Appendix 8 ERV (% of RWA)</b>		
12a	Own funds under Appendix 8nERV	2.50%
12b	Anti-cyclical buffer (Art. 44 and 44a ERV)	0.00%
12c	Target CET1 ratio under Appendix 8 ERV plus-cyclical buffer under Art. 44 and 44a ERV	7.00%
12d	Target T1 ratio under Appendix 8 ERV plus anti-cyclical buffer under Art. 44 and 44a ERV	8.50%
12e	Target total capital ratio under Appendix 8 ERV plus anti-cyclical buffer under Art. 44 and 44a ERV	10.50%
<b>Basel III leverage ratio</b>		
13	Total commitment (in k CHF)	28'732
14	Basel III leverage ratio (core capital as % of total commitment)	55.68%

## 2 OVERVIEW OF RISK-WEIGHTED ASSETS (OV1)

<i>in thousands Swiss Francs</i>	31.12.2021	
	RWA	Minimum own funds
1 Credit risk	12'917	1'033
20 Market risk	51'215	4'097
24 Operational risk	27'673	2'214
25 Amounts below the threshold deductions (with 250% according to positions to be risk-weighted)		
<b>27 Total</b>	<b>91'806</b>	<b>7'344</b>

## 3 CREDIT QUALITY OF ASSETS (CR1)

<i>in thousands Swiss Francs</i>	a	b	c	Net value (a + b - c)
	Gross book value of defaulted positions	Gross book value of not defaulted positions	Adjustments / write-downs	
1 Receivables (excluding debt instruments)		15'082		15'082
2 Debt instruments		1'837		1'837
3 Off-balance-sheet positions		0		0
<b>4 Total reporting year</b>	<b>0</b>	<b>16'919</b>	<b>0</b>	<b>16'919</b>

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## 4 RISK MANAGEMENT

### **Risk assessment**

The Board of Directors continually assesses the primary risks to which the securities firm is exposed. The independent risk management presents the risk report to the Board of Directors for the purposes of assessing the appropriateness of the Security Dealer's risk management. The risk report serves the purpose to outline the relevant risks and their possible impacts on the Company's financial accounting, and to highlight the steps taken to measure, manage and limit these risks (risk management). The Board of Directors did not identify any risks in the course of the financial year which might necessitate a major revision of the assets, liabilities, financial position and profit or loss as presented in the annual financial statements. Please read the following statements for more details of risk management.

### **Risk management**

The risks related to the securities firm activities are systematically recorded, managed and limited on the basis of uniform guidelines and standards whose appropriateness is periodically examined. The Company complies with the guidelines and standards stipulated by the Swiss Financial Market Supervisory Authority FINMA. The Company's executive bodies are regularly notified about the development of the Companies' assets, liabilities and financial position. The Board of Directors has opted not to set up an Audit Committee, since the size criteria stipulated in FINMA circular 2017/1 do not apply to Crypto Finance (Brokerage) AG. This task is performed by the full Board of Directors.

### **Key types of risk for the company**

As its core line of business is brokerage and safekeeping services, the Company is primarily exposed to Market- Liquidity and Credit Risks, which it manages via risk limits. Additionally operational risks arise due to the nature of the business.

Market Risks: Risk of losses through change of market value of direct investments, FX exposure or being exposed to market risk during daily operations. As part of the business, the company holds crypto assets to enable fast and efficient settlement, therefore the Company is exposed to market risk. This market risk includes the crypto currencies as well as fiat, as most revenues are nominated in USD. The market risk is hedged via forwards and futures whenever possible. The company wide risk management limits market risk by limits that are set on market exposures.

Credit Risk: The Company has the necessity to move assets to a counterparty during the normal course of operations of its business. These assets may only be recoverable partially or not at all in the case of a default of the counterparty. An examples is that tokens need to be moved crypto exchanges or counterparties to have sufficient working capital allocated. if the exchange or counterparty gets hacked and goes bankrupt, a loss based on the credit risk would arise.

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To limit the Credit Risk for the Company, the Board of Directors has set Credit Risk Limits where exposures may not exceed a certain threshold.

Liquidity Risk: The Company has working capital comprising of own fiat liquidity, tokens, in addition, it has credit lines at exchanges, banks, OTC-desks and banks. Counterparties typically require the Company to fund the credit lines with some collateral in the form of tokens or fiat with 5-10% of the credit line. Costs associated to financing these liquidity obligations and the risk of not being able to meet financial obligations are the liquidity risk. The company adheres to all liquidity obligations set forth by the regulator FINMA as well as internal rules which define thresholds and with that limit the risks arising from insufficient liquidity.

Operational Risk: Pursuant to article 89 of the Capital Adequacy Ordinance (ERV), operational risks are defined as the »danger of losses resulting from the inadequacy or failure of internal procedures, individuals or systems, or from external events«. The definition covers also all legal risks, including fines from regulatory authorities and settlements. The Board of Directors has defined and regularly reviews a framework for management of operational risks, in particular the determination of risk appetite and risk tolerance. The form, type and level of the operational risks to which the Company is exposed and which it is prepared to accept should be recorded. The overall concept is based on the COSO Standard (Committee of Sponsoring Organizations of the Treadway Commission). In particular, various risk management techniques were adopted, for example for the overall risk assessment, risk metrics and risk indicators. To implement the framework agreement, Risk Control shows the Board of Directors, as part of the annual risk report, those operational risks that the Company considers to be particularly critical. The criticality of an operational risk is assessed by Risk Control. The risks selected in this way are described using the principles laid down by FINMA and measures taken to limit the risk are explained. The Company uses the basic indicator approach to calculate operational risk.

Compliance and Legal Risk: The Management and the Compliance department ensure that the Bank's business activities are carried out in accordance with the applicable regulations and the due diligence requirements of a financial intermediary. They are responsible for compliance with the requirements and developments of the supervisory authority, the legislature and other organizations. They are also responsible for ensuring that directives and regulations are amended in accordance with regulatory developments and that these are complied with. The Bank's legal department handles all of the Bank's legal issues. In particular, it works to minimize the risks inherent in cross-border transactions using appropriate measures.

Outsourcing: The Company has outsourced different functions to external service providers. Crypto Finance AG is covering functions like HR, Marketing and Accounting and is as well providing the IT infrastructure. Internal audit activities have been outsourced to SWA Swiss Auditors. The technical setup for the enablement of the safekeeping of crypto assets is outsourced to the sister company Crypto Finance (Infrastructure Services) AG