



**DISCLOSURES IN ACCORDANCE WITH THE  
DIRECTIVE FOR THE CAPITAL REQUIREMENTS OF  
INVESTMENT FIRMS FOR THE YEAR ENDED 31  
DECEMBER 2011**

**May 2012**

---

**CONTENTS**

---

1	GENERAL INFORMATION AND SCOPE OF APPLICATION .....	3
2	RISK MANAGEMENT AND GOVERNANCE OF THE COMPANY .....	4
3	OWN FUNDS.....	6
4	CAPITAL REQUIREMENTS.....	7
4.1	<i>Credit Risk</i> -----	7
4.2	<i>Operational Risk</i> -----	10
4.3	<i>Market and Liquidity Risk</i> -----	10

## **1 GENERAL INFORMATION AND SCOPE OF APPLICATION**

### **Requirements of the Directive**

The information below is disclosed in accordance with Directive DI144-2007-05 of 2011 of the Cyprus Securities and Exchange Commission (“CySEC”) for the Capital Requirements of Investment Firms.

The information that Colmex Pro Ltd (“the Company”) discloses herein relates to the year ended 31 December 2011.

### **Principal Activities**

The Company is licensed by CySEC as a financial services firm, under CIF license number 123/10.

The principal activities of Colmex Pro Ltd are the provision of investment services to natural and legal persons in accordance with the provisions of the applicable legislation and requirements issued by the Cyprus Securities and Exchange Commission (“CySEC”).

### **Disclosure Policy**

The Company discloses information in relation to its risk management policies and procedures on an annual basis. The disclosures are published on the website of the Company five months after the financial year end.

### **Scope of the Disclosures**

As at 31 December 2011, the Company did not have any subsidiaries.

As a result, the disclosures in this document relate solely to information of the Company.

## 2 RISK MANAGEMENT AND GOVERNANCE OF THE COMPANY

The Board of Directors is responsible for overlooking the operations of the Company. With respect to the management of risk, it has overall responsibility for the establishment and oversight of the Company's risk management framework.

The major duties of the Board of Directors of **Colmex Pro Ltd** are:

- To carry the overall responsibility for proper implementation of the relevant Laws/regulations
- To formulate the Company's business strategy in terms of the development of existing and new services and the Company's presence in the local and international financial markets
- To govern the Company by broad policies and objectives, formulated and agreed upon by the chief executive and employees
- To ensure that sufficient resources are available to the Company to carry out its operations
- To be responsible for the overall duties and responsibilities of the Anti-Money Laundering / Compliance Officer (MLCO)
- To define, record and approve the general policy principles of the Company in relation to the prevention of money laundering and terrorist financing
- To notify the Company's policy for the prevention of money laundering and terrorist financing to the MLCO
- To approve the Company's risk management and procedures
- To establish a clear and quick reporting chain for transmission of information to the MLCO
- To assess the Money Laundering function
- To assess and approve of the annual report of the MLCO
- To assess the Internal Audit Department's members and the efficiency of the mechanisms of internal control
- To assess the Compliance Function
- To evaluate and adopt strategies to improve the operation of the internal audit mechanism
- To review written reports regarding Compliance, Risk Management and Internal Audit
- To approve the Company's financial statements
- To review the suitability report prepared by the Company's external auditors
- To take decisions on important matters of the Company during Board meetings

Also responsible for the Company's internal control system and the management of its risks are the following:

- Risk Management Department
- Anti-Money Laundering / Compliance Officer
- Internal Audit Function (outsourced)

### **Risk Management Department**

The Risk Management department is responsible for the compliance and monitoring of all transactions in the context of legality, avoidance of conflict of interest, insider dealing and preservation of confidential information. The Risk Management department is also responsible for the

determination, evaluation and efficient management of the risks inherent in the provision of the investment services.

The scope of the Risk Management department concerning risk management is to provide their services in accordance with the provisions of the Law and the Directives issued by CySEC, as well as the internal regulations of the Company.

### **Anti-Money Laundering/Compliance Officer**

The Anti-Money Laundering / Compliance Officer reports directly to the Board of Directors and is responsible for:

- Ensuring compliance with laws, regulations and directives issued by CySEC
- Ensuring implementation of the procedures described in the Company's Procedures Manual
- Monitoring and assessing that adequate policies and procedures, to detect any risk of failure by the Company to comply with its obligations under the Law, as well as the associated risks, have been established, implemented and are maintained and that for these purposes, the Company takes into account the nature, scale and complexity of its business and the nature and range of investment services and activities undertaken in the course of that business
- Ensuring that Company employees attend training sessions on compliance with applicable laws, rules and regulations as well as anti-money laundering and terrorist financing procedures
- Providing advice and guidance to Company employees
- Ensuring that the Company complies with its continuous obligations to CySEC (e.g submission of Capital Adequacy Return, annual reports, notifications to CySEC regarding changes in the Company's structure, services, personnel, procedures, etc)
- Ensuring the implementation of the "know your client" procedures of the Company
- Communicating with regulatory bodies
- Assisting regulatory bodies in performing inspections of the Company's activities
- Gathering information with regards to the new customers of the Company
- Analyzing the customers' transactions
- Continuous improvement of the existing control procedures
- Reviewing Company's marketing communications and checking if it has been prepared in accordance with legal requirements
- Advising and assisting employees to comply with the Company's obligations under the Law and the Directives
- Recommending specific remedial measures, in case of detection of any weakness or failure by the Company to comply with its obligations under the Law
- Providing an annual written report to the Board of Directors on the matters of his/her responsibility, indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies

### Internal Audit

The Internal Audit function is outsourced to an external audit firm and is an element of the internal control framework established by management to examine, evaluate and report on financial and other controls on operations. Internal audit assists management in the effective discharge of its responsibilities and functions by examining and evaluating controls.

It is an independent unit reporting directly to the Board of Directors through a written internal audit report prepared on an annual basis.

## 3 OWN FUNDS

The Own Funds of the Company as at 31 December 2011 consisted solely of Tier 1 capital and amounted to 309 thousand Euros. An analysis is provided in Table 1 below:

<b>Table 1: Capital Base</b>	<b>31 December 2011 (€ '000)</b>
<i>Original Own Funds (Tier 1)</i>	
Share Capital	1
Share Premium	416
Retained Earnings	(40)
Audited income / (loss) for the year	(68)
<b>Total Eligible Own Funds</b>	<b>309</b>

### Share Capital

As at year end, the Company had issued 1.003 ordinary shares at €1,00 each.

The share capital of the Company was fully paid.

## 4 CAPITAL REQUIREMENTS

### Minimum regulatory capital requirements

The total capital requirements of the Company as at 31<sup>st</sup> December 2011 were 72 thousand Euros and are analyzed in Table 2 below:

<b>Table 2: Minimum Capital Requirements</b>	<b>31 December 2011</b> (€ '000)
<b><u>Risk Category</u></b>	
Credit Risk	10
Foreign Exchange Risk	1
Operational Risk	61
<b>Total</b>	<b>72</b>

The Capital Adequacy ratio of the Company as at 31 December 2011 was 34,44%.

### 4.1 Credit Risk

#### General

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets at the reporting date.

The Company has no significant concentration on credit risk. In addition, the Company has policies in place to ensure that sales of services are made to customers with an appropriate credit history. Cash balances are held with high credit quality financial institutions and the Company has policies to limit the amount of credit exposure to any financial institution.

#### Capital Requirements

The Company follows the Standardised Approach for the calculation of the minimum capital requirements for credit risk.

Table 3 below presents the allocation of credit risk by exposure class:

<b>Table 3: Exposure Classes and Minimum Capital Requirements</b>			
<b>Exposures at 31 December 2011</b>	<b>Average Exposure Value</b>	<b>Total Exposure Value</b>	<b>Minimum Capital Requirements</b>
<b><u>Exposure Class</u></b>	<b>(€ '000)</b>	<b>(€ '000)</b>	<b>(€ '000)</b>
Institutions	254	268	4
Corporates	128	59	5
Other Items	6	7	1
<b>Total</b>	<b>388</b>	<b>334</b>	<b>10</b>

The following Table presents the exposures of the Company per risk weight. We note that the Company does not keep any collaterals in relation to its credit risk exposures.

<b>Table 4: Exposure amount per risk weight</b>	
<b>Risk Weight</b>	<b>Exposure Amount</b>
	<b>(€ '000)</b>
20%	266
100%	68
<b>Total</b>	<b>334</b>

### **Risk Weighted Assets and Credit Quality Steps**

#### ***Institutions***

For the credit ratings of institutions the Company has used the ratings of Moody's. Exposures to Cyprus institutions were allocated into Credit Quality Step of 3, whereas exposures to UK and Hungary institutions received a CQS of 1 and 4 respectively, based on the Central Government Risk Weight based method and the credit rating mapping rules of the Directive.

#### ***Corporates***

Exposures to corporates were unrated. As a result, a 100% risk weight was used.

#### ***Other Items***

A risk weight of 100% has been applied to all other items.



Table 5 below analyses the Company's credit risk exposures by residual maturity:

<b>Table 5: Exposure Classes and Residual Maturity</b>			
<b>Exposures at 31 December 2011</b>	<b>Maturity ≤ 3 months</b>	<b>Maturity &gt; 3 months</b>	<b>Total</b>
<b><u>Exposure Class</u></b>	<b>(€ '000)</b>	<b>(€ '000)</b>	<b>(€ '000)</b>
Institutions	266	2	<b>268</b>
Corporates	14	45	<b>59</b>
Other Items	7	--	<b>7</b>
<b>Total</b>	<b>287</b>	<b>47</b>	<b>334</b>

Table 6 presents the geographic distribution of the Company's exposures, by exposure class:

<b>Table 6: Exposure classes by Country</b>				
<b>Exposures at 31 December 2011</b>	<b>Cyprus</b>	<b>Israel</b>	<b>Other</b>	<b>Total</b>
<b><u>Exposure Class</u></b>	<b>(€ '000)</b>	<b>(€ '000)</b>	<b>(€ '000)</b>	<b>(€ '000)</b>
Institutions	267	--	1	<b>268</b>
Corporates	45	14	--	<b>59</b>
Other Items	7	--	--	<b>7</b>
<b>Total</b>	<b>319</b>	<b>14</b>	<b>1</b>	<b>334</b>

Table 7 below presents the breakdown of the Company's exposures into industry sectors, analyzed by exposure class:

<b>Table 7: Breakdown of Exposures into Industry Sectors</b>			
<b><u>Exposure Class</u></b>	<b>Financial</b>	<b>Other</b>	<b>Total</b>
	<b>(€ '000)</b>	<b>(€ '000)</b>	<b>(€ '000)</b>
Institutions	268	--	<b>268</b>
Corporates	57	2	<b>59</b>
Other Items	7	--	<b>7</b>
<b>Total</b>	<b>332</b>	<b>2</b>	<b>334</b>

## **Impairment of assets**

Assets that have an indefinite useful life are not subject to recognized and are tested annually for impairment. Assets that are subject to depreciation or recognized are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

As at 31 December 2011 the Company had not recognized any impairment losses nor had it made any provisions.

## **4.2 Operational Risk**

### **General**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks outlined above. The directors carry the ultimate responsibility for managing operational risk.

### **Capital Requirements**

The Company applies the Basic Indicator Approach for calculating the amount of capital required under the minimum regulatory capital requirements for Operational Risk. As at 31 December 2011, the minimum capital requirements under this approach, and based on the gross-income average of the last three years, amounted to approximately 61 thousand Euros.

## **4.3 Market and Liquidity Risk**

### **General**

Market risk changes in line with fluctuations in market prices, such as foreign exchange rates, interest rates, equities and commodities prices. These market prices affect the Company's income indirectly as a result of the increase or decrease in the clients' activities, as well as the foreign exchange differences.

### **4.3.1 Market Risk**

#### ***Currency risk***

Currency risk results from adverse movements in the rate of exchange on transactions in currencies other than its reporting currency. As at the reporting date the Company was exposed to the US Dollar, the British Pound and the Hungarian Forint.

***Interest Rate risk***

Interest rate risk is the risk that movements in market interest rates will adversely impact the financial results of the Company. The Company considers interest rate risk to be significantly low.

**4.3.2 Liquidity Risk**

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

**Capital Requirements**

The Company does not trade on own account. As a result, it does not have a trading book.

The Company calculates its capital requirements on currency risk only. As at 31 December 2011, the Company's capital requirement against currency risk amounted to approximately 1 thousand Euros.