Colmex Pro
Trading for success

DISCLOSURES IN ACCORDANCE WITH THE DIRECTIVE FOR THE CAPITAL REQUIREMENTS OF INVESTMENT FIRMS FOR THE YEAR ENDED 31 DECEMBER 2012

May 2013

CONTENTS

1 GENERAL INFORMATION AND SCOPE OF APPLICATION

Requirements of the Directive

The information below is disclosed in accordance with Directive DI144-2007-05 of 2012 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 2012.

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 CySEC. Since September 2012 the Company's license was extended in order to also be able to perform own account trading.

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 2012, 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 main duties of the Board of Directors of Colmex Pro Ltd are:

- To carry the overall responsibility for proper implementation of the relevant laws and regulations
- To formulate the Company's business strategy in terms of the development of existing and new services and its 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 policies 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 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)

Investment Committee

The Investment Committee of Colmex Pro Ltd has been formed with the purpose of ensuring the practice of a proper investment policy.

The responsibilities of the Investment Committee are the following:

- to supervise the proper choice of investments (framework)
- information analysis for a better briefing prior to decision-making
- to analyze the investment potential and contribute to the elaboration of the investment policy
- to brief the Internal Auditor
- to establish, approve, monitor and adjust the Company Investment Policy
- to establish risk profile categories for each Client (e.g. cautious, balance, growth, aggressive)
- to analyze the economic conditions and the investment alternatives based on a thorough examination of third party reports
- to select appropriate benchmarks for different type of investment activities of the Company, where applicable
- to examine the returns and the associated risks of the activity connected with the Dealing on Own Account
- to decide upon the markets and types of financial instruments in which the Company shall be active (i.e. offering to Clients and for dealing on own account)
- establish, approve and monitor the Company's policy and strategy for dealing on own account
- to review annually the dealing on own account policy established and to use the recommendations of the Head of the Dealing on Own Account Department. Such a review shall also be carried out whenever a material change occurs
- the monitoring of the performance of portfolios that the Company shall be dealing on own account, as applicable

Risk Management Department

The Risk Management department is responsible for the compliance and monitoring of all transactions in the context of legality, avoidance of conflicts 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 is to ensure that, in providing the investment and ancillary services, the Company remains compliant with the provisions of the applicable legislation and the Directives issued by CySEC with regards to capital adequacy and other risk-related issues, as well as with 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 the adequacy of the existing policies and procedures for detecting the risk of failure by the Company to comply with its regulatory obligations, as well as the associated risks, and making sure that 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 marketing communications and making sure that they have been prepared in accordance with legal requirements
- Advising and assisting employees to comply with the Company's regulatory obligations
- Recommending specific remedial measures, in case of detection of any weakness or failure by the Company to comply with its obligations under applicable laws and regulations
- Providing a written annual 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 2012 consisted solely of Tier 1 capital and amounted to USD 1.599 thousand. An analysis is provided in Table 1 below:

Table 1: Capital Base	**31 December 2012 ($ ‘000)**
Original Own Funds (Tier 1)	
Share Capital	**1**
Share Premium	**1.418**
Retained Earnings	**(139)**
Audited income / (loss) for the year	319
Total Eligible Own Funds	**1.599**

Share Capital

Authorized capital

The authorized share capital of Colmex Pro Ltd amounts to €10.000.

Issued capital

As at 31 December 2012, the Company had issued 1.003 ordinary shares at €1,00 each. On the 4th of December 2012 the company issued 100 additional shares at a premium of €693.830 (USD equivalent 879.499).

4 CAPITAL REQUIREMENTS

Minimum regulatory capital requirements

The total capital requirements of the Company as at 31st December 2012 were USD 667 thousand and are analyzed in Table 2 below:

Table 2: Minimum Capital Requirements	31 December 2012 ($ '000)
Risk Category	
Credit Risk	81
Market Risk	411
Operational Risk	175
Total	**667**

The Capital Adequacy ratio of the Company as at 31 December 2012 was 19,17%.

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 on hand at the reporting date. The Company has no significant concentration of credit risk. The Company has policies in place to ensure that sales of services are made to customers with an appropriate credit history. In addition, the Company has policies to limit the amount of credit exposure to any financial institution.

It should be noted that the Cyprus government has been negotiating with the European Commission, the European Central Bank and the International Monetary Fund, as well as third parties, in order to obtain financing. As a result of the ongoing negotiations and the difficulties faced by the two largest banks in Cyprus, there are uncertainties relating to the Company's bank deposits maintained with the largest local bank institution. As at 31 December 2012, these deposits amounted to USD 727.003.

Nevertheless, the Company's management believes that it is taking all the necessary measures to maintain the viability of the Company and the development of its business in the current business and economic environment.

Capital Requirements

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

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

Table 3: Exposure Classes and Minimum Capital Requirements			
Exposures at 31 December 2012	**Average Exposure Value**	**Total Exposure Value**	**Minimum Capital Requirements**
Exposure Class	**($ ‘000)**	**($ ‘000)**	**($ ‘000)**
Institutions	838	1.329	22
Corporates	388	699	56
Other Items	24	39	3
Total	**1.250**	**2.067**	**81**

The following Table presents the exposures of the Company per risk weight:

Table 4: Exposure amount per risk weight	
Exposures at 31 December 2012	**Exposure Amount**
Risk Weight	**($ ‘000)**
20%	1.325
100%	742
Total	**2.067**

Risk Weighted Assets and Credit Quality Steps

Institutions

For the credit ratings of institutions the Company made use of the ratings of Moody’s and mapped them to the corresponding Credit Quality Step (“CQS”) in accordance with the mapping table provided in the Capital Requirements Directive. A breakdown of the CQS by asset class is provided in the following table:

Table 5: Breakdown by CQS				
Exposures at 31 December 2012	**CQS 1**	**CQS 4**	**CQS 5**	**Total**
Exposure Class	**($ ‘000)**	**($ ‘000)**	**($ ‘000)**	**($ ‘000)**
Institutions	601	1	727	**1.329**

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

Table 6: Exposure Classes and Residual Maturity			
Exposures at 31 December 2012	**Maturity ≤ 3 months**	**Maturity > 3 months**	**Total**
Exposure Class	**($ '000)**	**($ '000)**	**($ '000)**
Institutions	1.325	4	**1.329**
Corporates	614	85	**699**
Other Items	-	39	**39**
Total	**1.939**	**128**	***2.067***

Table 7 presents the geographic distribution of the Company's exposures, by exposure class:

Table 7: Exposure classes by Country				
Exposures at 31 December 2012	**Cyprus**	**UK**	**Other**	**Total**
Exposure Class	**($ '000)**	**($ '000)**	**($ '000)**	**($ '000)**
Institutions	727	601	1	**1.329**
Corporates	86	-	613	**699**
Other Items	39	-	-	**39**
Total	**852**	**601**	**614**	***2.067***

Table 8 below presents the breakdown of the Company's exposures into industry sectors, analyzed by exposure class:

Table 8: Breakdown of Exposures into Industry Sectors				
Exposures at 31 December 2012	**Financial**	**Private Individuals**	**Other**	**Total**
Exposure Class	**($ ‘000)**	**($ ‘000)**	**($ ‘000)**	**($ ‘000)**
Institutions	1.329	-	-	**1.329**
Corporates	78	614	7	**699**
Other Items	-	-	39	**39**
Total	**1.407**	**614**	**46**	***2.067***

The Company is subject to Counterparty Credit Risk through its positions in derivative contracts with its counterparties, and has employed the Mark-to-Market method to calculate the capital requirement arising from these exposures. The resulting capital requirement is USD 2 thousand. Details of the Company's Mark-to-Market calculations, as at 31st December 2012, are provided in the Table below:

Table 9: Counterparty Credit Risk Exposures				
Exposures at 31 December 2012	**Market Value**	**PFCE %**	**Final Exposure**	**Capital Requirement**
Type	**($ ‘000)**		**($ ‘000)**	**($ ‘000)**
Equity CFDs	3	6%	18	**1**
Stock Index CFDs	2	6%	12	**1**
Total	**5**	**-**	**30**	***2***

Impairment of assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to depreciation or amortization 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 2012 the Company had not recognized any impairment losses.

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 are responsible for managing operational risk and have identified the following risks which are considered significant to the Company:

Technology

The Company's operations are highly dependent on technology and advanced information systems. Its ability to provide its clients with reliable, real-time access to its systems is fundamental to the success of the business. Such dependency upon technology exposes the Company to significant risk in the event that such technology or systems experience any form of damage, interruption or failure. The Company has business continuity procedures and policies in place which are designed to allow it to continue trading in its core markets and its systems are designed to mitigate the risk of failure of any component.

Where the Company is dependent upon providers of data, market information, telephone and internet connectivity, the Company mitigates against the risk of failure of any of these suppliers by ensuring that, where possible, multiple providers and data routes are utilized. To remain competitive, the Company must continue to enhance and improve the responsiveness, functionality, accessibility and other features of its software, network distribution systems and technologies.

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 2012, the minimum capital requirements under this approach, and based on the gross-income average of the last three years, amounted to approximately USD 175 thousand.

4.3 Market 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.

The Table below shows the capital requirements for Market Risk as at 31st December 2012:

Table 10: Minimum Capital Requirements for Market Risk	
Amounts at 31 December 2012	**Minimum Capital Requirement**
Risk Weight	**($ '000)**
Foreign Exchange Risk	372
Interest Rate Risk	0
Commodity Risk	2
Equity Risk	37
Total	**411**

4.3.1 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 several foreign currencies, arising both from its assets and liabilities and from its positions in rolling FX spots. The Company also held some positions in gold, which are also subject to currency risk.

4.3.2 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 is exposed to Interest rate risk through its positions in rolling FX spots, which are booked in the Trading Book. However, due to their short residual maturity, the resulting capital requirement is zero.

4.3.3 Commodity Risk

Commodity risk arises from the positions of the Company in derivative contracts for which the underlying instruments are commodities and which are booked in the Trading Book. The capital requirement for Commodity risk was calculated using the Simplified Approach.

4.3.4 Equity Risk

Equity risk is the risk of loss resulting from fluctuations in the price of stocks or changes that relate to the issuer of a share or the stock market in general. The Company is exposed to Equity risk through its positions in equity CFDs and stock index CFDs which are booked in the trading book.

4.4 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. The Company holds in separate accounts all the funds of its clients and therefore considers that its liquidity risk is significantly low.

5 REMUNERATION

As part of the Company's performance management and its commitment to the ongoing development of its people, Colmex Pro Ltd operates an annual Performance Appraisal programme, in which all staff participates.

The main purpose of the Performance Appraisal procedure is to ensure that, at least once a year, the CEO meets with each employee to discuss his/her performance and professional development and set new goals for the new period. This includes:

- A review of the employee's performance during the period since the last appraisal or since joining the Company
- Agreement on the work objectives and priorities to be achieved during the coming 12 months, and
- Discussion of any issues identified by either the employee or the CEO

It is important to note that this appraisal process is not designed to replace ongoing feedback and discussion, but to enhance the communication that is already taking place between the CEO and the individuals. To achieve this, the Company takes the necessary steps to ensure that this takes place in a continuous manner throughout the year.

The final decisions with regards to the fixed and variable remuneration levels and salary increases of staff are taken by the CEO in consultation with the second general manager and Executive Director of Colmex Pro Ltd. Apart from the discussions held with employees, this decision-making process is informed by the observed employee performance which is based on a number of parameters such as the speed of conducting the assigned tasks, the quality of the end results, the achievement of the set goals, the quality of customer service and speed of order execution (where applicable), and the overall commitment to the Company and its values.

Quantitative data

The aggregate remuneration of the Company's personnel for the year ended 31 December 2012, broken down by business area, is as follows:

Table 11: Aggregate Remuneration by Business Area - 31 December 2012 ($ '000)	
Business Area	**Aggregate Remuneration**
Control Functions	29
Back Office & Customer Service	23
Dealing on Own Account	26
Reception & Transmission of orders	43
Total	**121**

Control functions include the AML & Compliance Department.

The aggregate remuneration, broken down by Senior Management & Executive Directors and members of staff whose actions have a material impact on the risk profile of the Company, is as follows:

Table 12: Aggregate Remuneration by Senior Management & Executive Directors and Other Staff - 31 December 2012 ($ '000)				
Personnel	**No. of people during 2012**	**Fixed (Cash)**	**Variable (Cash)**	**Aggregate Remuneration**
Senior Management & Executive Directors	5	165	3	168
Other Staff	2	22	-	22
Total	**7**	**187**	**3**	**190**

The Company did not pay any non-cash remuneration during 2012.

"Senior Management" consists of the heads of the departments presented in Table 11 above, while "Other Staff" includes the personnel employed in the aforementioned departments.