DISCLOSURES IN ACCORDANCE WITH THE DIRECTIVE FOR THE CAPITAL REQUIREMENTS OF INVESTMENT FIRMS FOR THE YEAR ENDED 31 DECEMBER 2014

May 2015

CONTENTS

1 GENERAL INFORMATION AND SCOPE OF APPLICATION

Requirements of the Directive

The information below is disclosed in accordance with Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the council of 26 June 2013 on prudential requirements for credit institutions and investment firms (the "Regulation") and paragraph 32(1) of DI144-2014-14 of the Cyprus Securities and Exchange Commission (the "CySEC") for the Prudential Supervision of Investment Firms.

The information that Colmex Pro Ltd ("the Company") discloses herein relates to the year ended 31 December 2014.

Company Incorporation and Principal Activities

The Company was incorporated in Cyprus on 29 December 2009 as a private liability company under the Cyprus Companies Law, Cap. 113. The Company was authorized to provide investment firm services by CySEC on 19 October 2010, 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 the 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.

The Company is authorized to provide the following investment and ancillary services, in the financial instruments specified below:

Investment services	Ancillary Services	Financial Instruments
Reception and transmission of orders in relation to one or more financial instruments	Safekeeping and administration of financial instruments, including custodianship and related services	• Transferable securities • Money market instruments • Units in Collective Investment Undertakings (CIUs) • Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash • Options, futures, swaps, forward rate agreements and any other derivative

Execution of orders on behalf of clients	Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction	contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event) • Options, futures, swaps and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market or/and an MTF • Options, futures, swaps and any other derivative contracts relating to commodities that can be physically settled not otherwise mentioned in paragraph 6 of Part III and not being for commercial purposes, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled through recognized clearing houses or are subject to regular margin calls • Derivative instruments, the transfer of credit risk • Financial contracts for differences • Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates, emission allowances or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of the parties (otherwise than by reason of a default or other termination event), as well as any other derivative contract relating to assets, rights, obligations, indices and measures, not otherwise mentioned in this Part, which have the characteristics of other financial instruments, having regard to whether, inter alia, they are traded on a regulated market or an MTF, are cleared and settled through recognized clearing houses are subject to regular margin calls
Dealing on own account	Investment research and financial analysis or other forms	

In addition to the above, the Company is authorized to provide ancillary Foreign exchange services where these are connected to the provision of investment services.

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 2014, 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

2.1 The Board

The Board of Directors is currently composed by 2 (two) executive and 2 (two) non-executive independent directors.

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 have 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 appoint Money Laundering Compliance Officer (MLCO) and define his/her duties and responsibilities
- 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 manual
- 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 AML, 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

2.1.1 "Four Eyes"

The two executive directors of the company are the "four eyes" for the management of the Company.

Their tasks are the general management of the operations of the Company in an orderly and efficient manner, in accordance with the Company's Procedures Manual, as well as the strategy formulation of the Company within the parameters of the relevant law and regulations.

2.1.2 General Manager

The General Manager/CEO/Managing Director has the overall responsibility of overseeing the day-to-day operations, managing human resources and promoting the services offered by the Company. The General Manager acts as a liaison between the Heads of departments and the Board of Directors. The Heads of departments report to the General Manager and the General Manager reports to the Board of Directors.

2.2 Risk 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)
- to perform 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 debrief 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)
- to establish, approve and monitor the Company's policy and strategy for dealing on own account
- to review on an annual basis 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
- to monitor the performance of portfolios that the Company shall be dealing on own account, as applicable

The Investment Committee convenes at least annually, either in the offices of the Company or via conference call. Additionally, meeting can be carried out whenever a material change occurs.

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

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

2.3 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.

The Head of the Department is responsible to apply risk management and ensure compliance with the Company's policy and internal regulation.

Specifically, the responsibilities of the Risk Management Department are the following:

- To develop a policy regarding the assumption, follow up and management of risk which will include guidelines regarding possible risk exposure and acceptable risk levels
- To develop a risk management policy for credit risk, liquidity risk and market risk
- To perform a periodic assessments on the pricing policy with respect to all offered services taking into account the cost, the competitor's pricing policy and the cost- benefit analysis
- To assess the quality and financial analysis of Company's clients when opening a new client account and classification of clients according to Company's risk criteria and limits
- To assess the quality and financial analysis of counterparties when signing a counterparty agreement and classification of the counterparty according to Company's risk criteria and limits
- To evaluate the risks associated with transactions executed on behalf of Company's clients
- To comply with stop loss control limits
- To monitor the investment risk undertaken by the Company for each client, counterparty and as a whole
- To estimate the risk of Company's clients and counterparties participation in money laundering and/or terrorist financing and act in accordance
- To monitor the deals executed with counterparties in relation to securities' market prices
- To monitor the brokerage transactions as regards adherence to established risk limits
- To monitor compliance of established limits set by the Company
- To monitor risk associated with margin trading clients
- To recalculate and monitor the market risks parameters on all target financial instruments
- To model and evaluate the influence of changes in parameters of market risks in relation to Company's controls and management of critical situations
- To monitor day-to-day operational risks
- To build a risk aware culture within the organisation and providing the relevant training
- To maintain appropriate internal control systems designed to manage key risk areas
- To regularly follow up of the effectiveness and management of the risks assumed by the Company
- To scrutinize the Company's compliance with the arrangements, processes and mechanisms adopted to manage the risks relating to the Company's activities processes and systems in light of the level of risk tolerance

- To scrutinize the adequacy and effectiveness of measures taken to address any deficiencies in policies, procedures, arrangements, processes and mechanisms, for managing risks relating to Company's activities, processes and systems, including failures by the relevant persons of the Company to comply with such arrangements, processes and mechanisms or follow such policies and procedures
- To prepare 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

2.4 Compliance / Anti-Money Laundering Officer

The Compliance / Anti-Money Laundering 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
- Continuously improving 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

2.5 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.

2.6 Information flow on risk to the management body

The Risk Management department is in close communication with the General Manager and has also direct access to the Board of Directors if deemed to be necessary. The communication could be done by email or any other written form.

2.7 Board – Recruitment Policy

For the positions of the members of the Board of Directors, General Manager and other managerial positions, the Company proceed by selecting the most appropriate candidate who shall be of sufficiently good repute and sufficiently experienced as to ensure the sound and prudent management of the CIF. The final approval is given by CySEC.

The Board of Directors decides whether a potential candidate is "fit and proper" taking into consideration various factors such as:

1. Skills and knowledge of the candidate in accounting, finance, law, business administration and other related areas
2. Integrity, honesty, trustworthiness
3. Knowledge of the financial sector and of the governing regulatory framework
4. Sound business judgment
5. Relevant previous experience
6. Clear Criminal Record

The Board of Directors will determine whether the applicant is considered to be suitable and CySEC's approval will be sought.

2.8 Board – Diversity Policy

Diversifying the board has the following benefits:

- More effective decision making
- Better utilisation of the talent pool
- Enhancement of corporate reputation and investor relations by establishing the company as a responsible corporate citizen

The Company perceives that directors are expected collectively to apply operational and financial strategies for the organisation and monitoring the efficiency of the Company's policies and practices. Colmex Pro is committed to develop a robust corporate governance framework, by enhancing a diverse and independent working environment at all levels. The General Manager in cooperation with the Compliance and Risk Department are responsible for ensuring that the Board of Directors is at all times well diversified. By having a diverse Board, the Company is benefited from the variety in the skills, experience, knowledge and background of each member of the Board.

2.9 Number of directorship held by members of Board

The table below provides the number of directorships a member of the management body of the Company holds at the same time in other entities. Directorships in organizations which do not pursue predominantly commercial objectives, such as non-profit-making or charitable organizations, are not taken into account for the purposes of the below.

Name of Director	Position within Colmex Pro Ltd	Directorships
Rodion Rahnayev	Executive Director	1
Meir Barak	Executive Director	1
Paris Paraskeva	Non – Executive Director	0
Theodoros Louka	Non – Executive Director	2

2.10 Board Declaration – Adequacy of the Risk Management arrangements

The declaration on the adequacy of risk management arrangements of the Company is provided in ANNEX I. This is approved by the Board and provides assurance that the risk management systems in place are adequate with regards to the Company’s profile and strategy.

2.11 Risk Statement

The Company’s risk statement is provided in ANNEX II. This is approved by the Board and describes the Company’s overall risk profile associated with the business strategy.

3 OWN FUNDS

The Own Funds of the Company as at 31 December 2014 consisted solely of Tier 1 capital and amounted to USD 3.267 thousand. An analysis is provided in Table 1 below:

Table 1: Capital Base	**31 December 2014 ($ ‘000)**
Original Own Funds (Tier 1)	
Share Capital	1
Share Premium	1.459
Retained Earnings	109
Audited profit/(loss) for the period	1.700
Total Eligible Own Funds before deductions	**3.269**
Tier 1 Deductions	
Intangible Assets	(2)
Total Eligible Own Funds after deductions	**3.267**

Authorized Share Capital

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

4 CAPITAL REQUIREMENTS

Minimum regulatory capital requirements

The total capital requirements of the Company as at 31st December 2014 were USD 1.965 thousand and are analyzed in Table 2 below:

Table 2: Minimum Capital Requirements	**31 December 2014 ($ '000)**
<u>Risk Category</u>	
Credit Risk	256
CVA Risk	0
Market Risk	1.339
Operational Risk	370
Total	**1.965**

The Capital Adequacy ratio of the Company as at 31 December 2014 was 13,30%.

4.1 Credit Risk

General

Credit risk arises when a failure by counterparties 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, as well as to limit the amount of credit exposure to any financial institution.

Capital Requirements

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

Tables 3 and 4 below present the Company's credit risk exposure and average exposure, risk weighted assets ("RWA") and minimum capital requirement as at 31 December 2014, broken down by exposure class:

Table 3: Exposure Classes by Risk-weighted Amount and Minimum Capital Requirements		
Exposures at 31 December 2014	**Risk-weighted amounts**	**Minimum Capital Requirements**
<u>Exposure Class</u>	**($ '000)**	**($ '000)**
Public Sector Entities	79	6
Institutions	735	59
Corporates	2.285	183
Equity	61	5
Other Items	35	3
Total	**3.195**	**256**

Table 4: Exposure Classes		
Exposures at 31 December 2014	**Average Exposure Value**	**Total Exposure Value (Before & After CRM)**
<u>Exposure Class</u>	**($ '000)**	**($ '000)**
Public Sector Entities	39	79
Institutions	2.365	3.109
Corporates	1.745	2.199
Equity	31	61
Other Items	32	35
Total	**4.212**	**5.483**

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

Table 5: Exposure amount per risk weight	
Exposures at 31 December 2014	**Exposure Amount (before & after CRM)**
Risk Weight	**($ '000)**
20%	3.022
100%	2.200
150%	261
Total	**5.483**

Risk Weighted Assets and Credit Quality Steps

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 below:

Credit Quality Step	Moody's
1	Aaa to Aa3
2	A1 to A3
3	Baa1 to Baa3
4	Ba1 to Ba3
5	B1 to B3
6	Caa1 and below

The Other Items category includes property, plant and equipment, VAT input and cash in hand. A risk weight of 100% was applied to Other Items, with the exception of cash at hand, for which a 0% risk weight factor was assigned.

The Other Items category includes property, plant and equipment, VAT input and cash in hand. A risk weight of 100% was applied to Other Items, with the exception of cash at hand, for which a 0% risk weight factor was assigned.

The Public sector entity includes the Company's exposure to Investors' Compensation Fund as per paragraph 13(3) of Directive DI144-2014-15 on the national discretions of the CySEC.

A breakdown of the CQS by asset class is provided in the following table:

Table 6: Breakdown by CQS	
Exposures at 31 December 2014	**Exposure values (before & after CRM)**
<u>Exposure Class</u>	**($ '000)**
1	1.940
2	654
3	0
4	0
5	0
6	169
Unrated/ Not Applicable	2.720
Total	**5.483**

Table 7 below analyses the Company's credit risk exposures by residual maturity:

Table 7: Exposure Classes and Residual Maturity			
Exposures at 31 December 2014	**Maturity ≤ 3 months**	**Maturity > 3 months or Not Applicable**	**Total**
<u>Exposure Class</u>	**($ '000)**	**($ '000)**	**($ '000)**
Public Sector Entities	0	79	**79**
Institutions	3.074	35	**3.109**
Corporates	2.189	10	**2.199**
Equity	0	61	**61**
Other Items	0	35	**35**
Total	**5.263**	**220**	**5.483**

Table 8 presents the geographic distribution of the Company's exposures, by exposure class:

Table 8: Exposure classes by Country					
Exposures at 31 December 2014	**Cyprus**	**UK**	**US**	**Other**	**Total**
<u>Exposure Class</u>	**($ '000)**	**($ '000)**	**($ '000)**	**($ '000)**	**($ '000)**
Public Sector Entities	79	0	0	0	**79**
Institutions	108	2.347	654	0	**3.109**
Corporates	10	0	0	2.189	**2.199**
Equity	61	0	0	0	**61**
Other Items	35	0	0	0	**35**
Total	**293**	**2.347**	**654**	**2.189**	**5.483**

Table 9 below presents the breakdown of the Company's exposures into industry sectors, analysed by exposure class:

Table 9: Breakdown of Exposures into Industry Sectors

Exposures at 31 December 2014	**Financial Sector**	**Other**	**Total**
<u>Exposure Class</u>	**($ '000)**	**($ '000)**	**($ '000)**
Public Sector Entities	0	79	**79**
Institutions	3.109	0	**3.109**
Corporates	0	2.199	**2.199**
Equity	61	0	**61**
Other Items	0	35	**35**
Total	**3.170**	**2.313**	**5.483**

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 123 thousand. Details of the Company's Mark-to-Market calculations, as at 31st December 2014, are provided in the Table below:

Table 10: Counterparty Credit Risk Exposures

Exposures at 31 December 2014	**Positive Fair Value**	**Negative Fair Value**	**Nominal Value**	**PFCE %**	**Exposure (before & after CRM)**	**Risk-weighted amounts**	**Capital Requirement**
<u>Type</u>	**($ '000)**	**($ '000)**	**($ '000)**	**(%)**	**($ '000)**	**($ '000)**	**($ '000)**
Equity CFDs	579	(196)	6.336	6%	959	959	77
Stock Index CFDs	174	(45)	4.513	6%	445	532	43
Mini Futures	37	0	122	10%	49	49	4
Total	**790**	**(241)**	**10.971**		**1.453**	**1.540**	**124**

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).

At the end of the reporting period for financial year 2014 the management of the Company has assessed its investment in Bank of Cyprus available for sale shares which resulted from the conversion of its uninsured deposits into shares on the basis of the decrees and related measures for the bank's recapitalization, and recognized an impairment loss of USD 126.084. As a consequence, the Company's investment in Bank of Cyprus available for sale shares decreased from USD 187.141 to USD 61.057.

Default exposures

A financial asset is past due when a counterparty has failed to make a payment when contractually due. The Company follows the definition of Article 178(1) of CRR.

There were no material past due exposures as at the 31/12/2014 and no provisions were made up to that date.

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. The Company's 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 2014, the minimum capital requirements under this approach, and based on the gross-income average of the last three years, amounted to approximately USD 370 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 2014:

Table 11: Minimum Capital Requirements for Market Risk

Amounts at 31 December 2014 **Risk Weight**	**Minimum Capital Requirement** **($ '000)**
Foreign Exchange Risk	66
Interest Rate Risk	0
Commodity Risk	13
Equity Risk	1.260
Total	**1.339**

4.3.1 Currency Risk

Currency risk results from adverse movements in the rate of exchange on transactions in currencies other than the Company's 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 FX instruments. 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 FX instruments, 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.

4.5 Approach to assessing adequacy of Internal Capital

In accordance with the Directive DI144-2014-15 of CySEC, on the Capital Requirements of Investment Firms ("IFs"):

- Colmex Pro Ltd shall have in place sound, effective and complete strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital that it considers adequate to cover the nature and level of the risks to which it is or might be exposed. In this respect, Colmex Pro Ltd shall adopt the relevant guide lines issued by CySEC.
- These strategies and processes shall be subject to regular internal review to ensure that they remain comprehensive and proportionate to the nature, scale and complexity of the activities of the Company.

As a result of the above mentioned requirements, the Company has in place an Internal Capital Adequacy Assessment Process ("ICAAP").

The ICAAP is an internal tool which allows Colmex Pro to assess its position and determine the amount of internal capital it needs to hold in order to be covered against all the risks it is facing or against the risks to which it may be exposed in the future

The ICAAP falls under the scope of Pillar 2, which can be described as a set of relationships between CySEC and the Investment Firm, the objective of which is to enhance the link between an investment firm's risk profile, its risk management and risk mitigation systems, and its capital.

Pillar 2 establishes a process of prudential interaction that complements and strengthens Pillar 1 by promoting an active dialogue between the regulator and the investment firm such that, any inadequacies or weaknesses of the internal control framework and also other important risks, the fulfillment of which may entail threats for the investment firm, are identified and managed effectively with the enforcement of additional controls and mitigating measures.

The ICAAP comprises of all the measures and procedures adopted by the Company, with the purpose of ensuring:

- the appropriate identification and measurement of risks,
- an appropriate level of internal capital in relation to the Company's risk profile, and
- the application and further development of suitable risk management and internal control systems and tools.

The ICAAP is clearly owned and approved by Colmex Pro Ltd's Board of Directors.

From the Company's perspective, the ICAAP:

- Is a key element of its day to day governance process and its strategic management initiatives;
- Promotes a comprehensive risk management framework;
- Aligns capital with risk management and strategy; and
- Provides a tool for communicating to the Board and the regulator the key aspects of its risk management and governance frameworks

ICAAP Profile and Methodology

The planning of the ICAAP is closely related to the size of the Company and the complexity of its operations, taking into consideration the principle of proportionality. In addition, the link between the ICAAP and the Supervisor's Review Process ("SREP"), which is going to be carried out by CySEC, is also influenced by the size and complexity of the Company's operations. According to the size of the Company and the complexity of its operations, the Company utilizes the minimum capital requirement approach for the calculation of the additional capital for Pillar 2. The Company has implemented the minimum capital requirement approach in three stages:

1. The Pillar 1 minimum capital requirement was used as the foundation, since it reflects the Company's exposure to Pillar 1 risks (i.e. Credit Risk, Operational Risk and Market Risk)
2. The adequacy of the minimum capital required under Pillar 1 was then assessed, in relation to risks arising from the following three categories:
   i. Risks covered in Pillar 1
   ii. Risk not fully covered in Pillar 1 (e.g. Concentration Risk which is part of Credit Risk);
   iii. Risks not covered in Pillar 1 (e.g. Liquidity Risk, Strategic Risk, Reputation Risk).
3. A comprehensive risk assessment was carried out for all three groups of risks, during which a profile was determined for each risk (high/medium/low), based on its anticipated impact and its likelihood of occurrence. All high profile risks were further analyzed and mitigation measures were set in order for the Company to better control and mitigate them.
4. The additional measures set for the mitigation of these risks are considered over and above the capital allocated for Pillar 1 purposes and can take the following forms:
   - Provision of additional capital, corresponding to the risks not covered, either fully or partially, by Pillar 1
   - Enhancement of internal procedures to reduce the likelihood of these risks materializing and/or the impact of these risks to the Company

4.6 Operating Environment of the Company

The Cyprus economy has been adversely affected over the last few years by the international credit crisis and the instability in the financial markets. During 2012 there was a considerable tightening of financing availability from Cypriot financial institutions, mainly resulting from financial instability in relation to the Greek sovereign debt crisis, including the impairment of Greek Government Bonds, and its impact on the Cyprus economy. In addition, following its credit downgrades, the ability of the Republic of Cyprus to borrow from international markets has been significantly affected. The Cyprus government entered into negotiations with the European Commission, the European Central Bank and the International Monetary Fund, in order to obtain financial support.

Cyprus and the Eurogroup (together with the International Monetary Fund) reached an agreement on 25 March 2013 on the key elements necessary for a future macroeconomic adjustment programme which includes the provision of financial assistance to the Republic of Cyprus of up to €10 billion. The programme aims to address the exceptional economic challenges that Cyprus is facing and to restore the viability of the financial sector, with the view of restoring sustainable economic growth and sound public finances over the coming years.

The Eurogroup decision on Cyprus includes plans for the restructuring of the financial sector and safeguards deposits below €100.000 in accordance with EU legislation. In addition, the Cypriot authorities have reaffirmed their commitment to step up efforts in the areas of fiscal consolidation, structural reforms and privatization. The Eurogroup requested the Cypriot authorities and the European Commission, in liaison with the European Central Bank, and the International Monetary Fund to finalize the Memorandum of Understanding within April 2013 which will then be followed by the formal approval of the Board of Directors of the European Stability Mechanism as well as by the ratification by Eurozone member states through national parliamentary (or equivalent) approvals.

On 22 March 2013 the House of Representatives voted legislation relating to capital controls affecting transactions executed through banking institutions operating in Cyprus. The extent and duration of the capital controls is decided by the Minister of Finance and the Governor of the Central Bank of Cyprus and were enforced on 28 March 2013. The Company's management is monitoring the developments in relation to these capital controls and is assessing the implications on the Company's operations.

The effect of these developments on the operations of the Company was the blockage of the Company's funds (approximately USD 715 thousand) held in the Bank of Cyprus.

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.

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 in 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 2014, broken down by business area, is as follows:

Table 12: Aggregate Remuneration by Business Area - 31 December 2014 ($ '000)

Business Area	**Aggregate Remuneration**
Control Functions	172
Back Office & Customer Service	98
Dealing on Own Account	52
Reception & Transmission of orders	296
Total	**618**

Control functions include the AML & Compliance Department, the Risk Manager and the General Manager.

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 13: Aggregate Remuneration by Senior Management & Executive Directors and Other Staff - 31 December 2014 ($ '000)

Personnel	**No. of people during 2014**	**Fixed (Cash)**	**Variable (Cash)**	**Aggregate Remuneration**
Senior Management (Executive Directors)	6	311	21	332
Other risk takers/Other staff	14	279	7	286
Total	**20**	**590**	**28**	**618**

The Company did not pay any non-cash remuneration during 2014.

“Senior Management” consists of the Executive Director and the heads of departments, while “Other risk takers/Other Staff” includes the staff employed in the departments presented in Table 12 above.

ANNEX I – Declaration

Board Risk Management Declaration

The Risk Management Department in close cooperation with the Risk Investment Committee and the Board of Directors are entitled to review and assess the efficiency of the risk management strategies and systems adopted by Colmex Pro Ltd.

The said procedures and strategies are designed to manage the risks that the Company might face during its operations.

The Board perceives that the Company has developed and established appropriate systems and mechanisms for the identification, prevention and mitigation of the risk.

ANNEX II – Risk Statement

Board approved Risk Statement

The management and the Board of Directors of Colmex Pro Ltd recognize that risk is embedded in all of the Company's activities and consider the development of a robust risk management framework as a matter of particularly high importance.

The Company is exposed to market risk, business risk, political risk, credit risk, operational risk, liquidity risk, interest rate risk, counterparty risk, money laundering and terrorist financing risk, compliance risk, regulatory risk, reputation risk and information and technology risk.

To this effect, the Company has performed a risk identification and assessment exercise with the use of a Risk Register, which reflected all the risks inherent in its activities and operations.

The following table presents the profile of the risks faced by the Company, after considering the application of the mitigating controls that are already in place.

Risk Profile of Colmex Pro Ltd	
Risk Type	**Risk Profile**
Market Risk	**Foreign Exchange Risk, Equity Price Risk, Equity Issuer Risk**
Business Risk	**Competitive Risk**
Political Risk	**Political Risk**
Credit Risk	**Sectoral Risk**
Operational Risk	**Legal Risk**
Liquidity Risk	**Liquidity Risk**
Regulatory Risk	**Low**

The Company has applied adequate mechanisms and systems to detect the risks faced during its operation. The table below illustrates the analysis of the material risks identified and the controls that the Company already has in place to manage and mitigate them.

<table>
<tr><th colspan="4">Colmex Pro Ltd: Material Risks</th></tr>
<tr><th>Risk Type</th><th>General Risk</th><th>Specific Risk to the Company</th><th>Mitigating Controls already in place</th></tr>
<tr><td rowspan="3">Market Risk</td><td>Foreign Exchange Risk</td><td>The Company is exposed to adverse exchange rate movements, as one of its main revenue stream relates to the profit generated from the own positions in FX. More specifically, high and unexpected volatility in FX markets may significantly affect the Company’s solvency position.</td><td>The Company implements a hedging strategy to minimize its exposure to this risk. This strategy consists of identifying and monitoring customers that are associated with higher degrees of risk for the Company, and hedging apart of its FX positions with clients by opening own account hedging trades with a cooperating broker. The Company also has a maximum limit of tolerated loss, which is also used as a trigger for hedging.</td></tr>
<tr><td>Equity Price Risk</td><td>The Company maintains own positions in Stock Index and Equity CFDs, hence it is subject to the risk of loss as a result to an adverse movement in the price of the underlying equities.</td><td rowspan="2">There are policies in place which ensure that dealers perform daily checks of the leverage granted to clients and when this is not within the specified tolerable limits, the leverage is reduced or the trades are liquidated. Also, the Company has recently opened a proprietary trading account with a broker in order to perform hedging trades in equities when and if required. A hedging strategy for equity positions is already in place.</td></tr>
<tr><td>Equity Issuer Risk</td><td>As a result of its positions in Stock Index and Equity CFDs, the Company incurs a risk of realizing a loss due to events that relate to the issuer(s) of the underlying equities.</td></tr>
<tr><td>Business Risk</td><td>Competitive Risk</td><td>Due to the high competition that characterizes the FX market, the Company has a significant exposure to this risk.</td><td>The Company continuously monitors the actions of its major competitors and ensures that it stays ahead of competition. One way of doing this is by providing more bonuses to its clients based on the volume of their transactions.</td></tr>
<tr><td>Political Risk</td><td>Political Risk</td><td>The current situation in Cyprus increases the risk of regulatory changes that could prove significant for the Company and its viability, such as taxation. Colmex Pro’s sensitivity to corporate tax is not very high, however its management believes that the possibility of a radical increase in tax rates is low.</td><td>There is nothing the Company can do other than keeping up to date with regulatory changes in relation to the local tax regime as well as any other changes that could significantly affect its profitability or solvency.</td></tr>
</table>

The Board of Directors is aware of the required actions to be implemented by the Company, as demonstrated on the Risk Management Report:

Material Risks –Next Steps

Level	Risk Category	Risk Type	Action/Next Steps
High	Market Risk	Foreign Exchange Risk	• The Company set a threshold in order for the maximum additional amount of tolerable loss from un-hedged FX and Equity positions in the event of unexpected high market volatility not to exceed $50 thousand, and the increase in un-hedged such positions to be no more than 10% • In addition, the Company will enhance its existing policies and procedures to ensure that dealers perform on a daily basis the appropriate checks of the leverage granted to clients and when this is not within the specified limits that the Company is willing to accept, to reduce the leverage or liquidate the trades
		Equity Price Risk	
		Equity Issuer Risk	
	Business Risk	Competition Risk	• The Company is determined to take all necessary action to ensure that it stays ahead of competition by offering personalized service of the highest quality to consumers • Furthermore, the Company will conduct market research and thorough competitor analysis to make sure that it offers similar or better benefits to its customers than competitions, with the purpose of not allowing its client base to drop by more than 5%
	Political Risk	Political Risk	• The Company will continue to actively monitor the current situation in Cyprus, Europe and other countries and comply with all regulatory requirements
Medium	Credit Risk	Sectorial Risk	• Despite its high concentration to financial institutions, Colmex Pro will continue monitoring the credit ratings and overall financial position and reputation of its counterparties on a regular and ongoing basis and ensure that its credit portfolio remains sufficiently diversified at all times
	Operational Risk	Legal Risk	• Colmex Pro will continue to stay up to date with new regulatory requirements and ensure that the compliance function operates properly in preventing incidences of non-compliance by the Company, its management and staff • Additionally, the Company will enhance Its approach to regulatory compliance, making sure that it is always aware of forthcoming regulatory changes and that it assesses the potential impact of these changes to its business, its profitability and its solvency
	Liquidity Risk	Liquidity Risk	• The Company will continue to ensure that it maintains sufficient cash and other highly liquid current assets to meet immediate liabilities as these fall due, as well as an adequate amount of committed credit facilities

The risk appetite enables the Company to be proactive. The Board of Directors is aware of the Risk mechanism and measures used to monitor the Company's Risk Profile.

ANNEX III – Balance sheet reconciliation

Balance Sheet Description (as per published financial statements)	**Amounts ($ ‘000)**
Share Capital	1
Share Premium	1.459
Retained earnings	109
Dividend paid	(894)
Audited income / (loss) for the year	2.594
Intangible assets/Goodwill	(2)
Total Own Funds	**3.267**

ANNEX IV – Own funds disclosure template under the Transitional and Fully phased in definition

TRANSITIONAL OWN FUNDS DISCLOSURE		
At 31 December 2014	**Transitional Definition**	**Full - phased in Definition**
	$'000	**$'000**
Common Equity Tier 1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	1.460	1.460
Retained earnings	1.809	1.809
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	0	0
Funds for general banking risk	0	0
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**3.269**	**3.269**
Common Equity Tier 1 (CET1) capital: regulatory adjustments	0	0
Intangible assets (net of related tax liability)	(2)	(2)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	0	0
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(2)**	**(2)**
Common Equity Tier 1 (CET1) capital	**3.267**	**3.267**
Additional Tier 1 (AT1) capital	**0**	**0**
Tier 1 capital (T1 = CET1 + AT1)	**3.267**	**3.267**
Tier 2 (T2) capital	**0**	**0**
Total capital (TC = T1 + T2)	**3.267**	**3.267**
Total risk weighted assets	**24.559**	**24.559**
Capital ratios and buffers		
Common Equity Tier 1	13,30%	13,30%
Tier 1	13,30%	13,30%
Total capital	13,30%	13,30%

Definitions:
The Common Equity Tier 1 (CET1) ratio is the CET1 capital of the Company expressed as a percentage of the total risk weighted assets for covering pillar 1 risks.

The Tier 1 (T1) ratio is the T1 capital of the Company expressed as a percentage of the total risk weighted assets for covering pillar 1 risks.

The Total Capital ratio is the own funds of the Company expressed as a percentage of the total risk weighted assets for covering pillar 1 risks.