



TRADING POINT OF FINANCIAL INSTRUMENTS LTD

**DISCLOSURE AND MARKET DISCIPLINE IN ACCORDANCE WITH
CAPITAL ADEQUACY AND REQUIREMENTS ON RISK MANAGEMENT**

May 2011

Contents

1. Introduction.....	1
2. Management of Risks	2
3. Regulatory Capital	4
4. Capital Requirements.....	5
5. Credit Risk	6
6. Market Risk.....	9
7. Operational Risk	10



1. Introduction

This report relates to Trading Point of Financial Instruments Ltd (“the Company”), an investment firm licensed by the Cyprus Securities and Exchange Commission (“CySEC”) in August 2010 under License No. 120/10.

The report pertains to the “Disclosure and Market Discipline of Investment Companies” regulatory obligation, as stipulated in CySEC’s Directive 144-2007-05 of 2010. Under this regulatory obligation the Company is required to disclose information relating to the capital it holds and to each material category of risk it faces, in order to assist users of its accounts and to encourage market discipline. These disclosures aim to provide information on the risk exposures faced by the Company and the risk assessment process it has in place to monitor these exposures.

The information disclosed herein relates to the year ended 31st December, 2010.

Trading Point of Financial Instruments Ltd does not have any subsidiaries and therefore this report relates solely to the Company.

The risk management objectives and policies of Trading Point of Financial Instruments Ltd are disclosed for each applicable category of risk, including the risks referred to under points 1 to 14 of Part 2 of Annex XII, Part C of CySEC’s Directive 144-2007-05 of 2010, as these apply to the Company’s current risk exposures. If risks referred to under points 1 to 14 do not apply, no reference is made.

The present disclosures are verified by the external auditor of Trading Point of Financial Instruments Ltd. A review will be carried out on an annual basis. Considering the scale, size and complexity of the Company and its operations, and the financial instruments offered to clients, it should be noted that some or all of the disclosures need not be published more frequently than annually. The disclosures will be published on the Company’s website at www.trading-point.com.

2. Management of Risks

The Company's Board of Directors and Senior Management have the overall responsibility for the establishment and oversight of the Company's risk management framework, as well as for the internal control systems.

In addition, the Company has employed a Risk Manager to head the Risk Management function. The Risk Manager (outsourced) reports to the Risk Management Committee, the Senior Management and the Board and is responsible for the following:

- Monitoring the adequacy and effectiveness of the Company's risk management policies and procedures
- Examining the level of compliance by the Company and its staff with the arrangements, processes and mechanisms adopted
- Monitoring the adequacy and effectiveness of the measures taken to address any deficiencies in the aforementioned policies, procedures, arrangements, processes and mechanisms, including failures by Company staff to comply with them
- Assessing the exposures and capital adequacy results of the Company
- Monitoring on a continuous basis the performance and overall actions of the Dealing on Own Account Department
- Monitoring the performance of the Company's portfolios
- Educating and training Company personnel on risk-related issues
- Evaluating the potential effects from the introduction of new services and activities to the management of the Company's risks

As an additional form of control, the Risk Management Committee is responsible for monitoring and controlling the Risk Manager in the performance of his duties. The Committee is dedicated primarily to managing the credit, market and operational risks resulting from the Company's operations, and as part of its responsibilities it has to set out, approve and regularly update the risk strategy.

The Risk Management Committee convenes at least annually, as well as upon the request of one of its members or the Risk Manager.

Furthermore, the Internal Audit function, which is outsourced, examines the compliance of the Company with regulatory requirements concerning internal audit matters and provides recommendations based on the work carried out.

Finally, the Head of Own Account Department implements a number of procedures which contribute towards the better management and control of risk. These include:



- Restricting deal sizes so as to avoid concentration to a single client
- Monitoring on a daily basis the Company's foreign currency positions
- Screening the hedging process, whereby the Company effects transactions with its liquidity providers in order to hedge its positions against its clients
- Continuously monitoring client activity for any "unusual" trading patterns
- Continuously checking published rates and ensuring they are aligned with market rates

The Company has established policies for managing and mitigating specific categories of risk (even though some policies may be geared to the achievement of objectives in one or more separate but overlapping categories).

Communication of information at all relevant levels is defined by the organizational structure, which clearly specifies reporting lines and allocates functions and responsibilities. The Company maintains internal reporting for several risk types and at varying frequencies and depth. Internal reporting is intended to provide the Board of Directors with knowledge about specific risks and other information set in the policies of the Company.

3. Regulatory Capital

The Company's Capital Base as at 31st December 2010 comprised of both Original Own Funds (Tier 1 capital) and Additional Own Funds (Tier 2 capital) and is analyzed in Table 1 below:

Table 1: Capital Base as at 31 December 2010 (€000)	
<i>Tier 1 capital</i>	
Ordinary Share Capital	1.170
Share Premium	131
Retained Earnings	(124)
Audited Losses from current year	(582)
Less: Intangible Assets	(58)
<i>Total Tier 1 Capital</i>	537
<i>Tier 2 capital</i>	
Convertible Redeemable Preference Share Capital (gross of share premium)	156
<i>Total Tier 2 capital</i>	156
Total Own Funds	693

Ordinary Share Capital

The Company's issued and fully paid share capital as at 31st December 2010 amounted to €1.170.000, divided into 1.170.000 ordinary shares of €1 each. During the year, the Company converted 780.000 redeemable shares to ordinary shares.

Convertible Redeemable Preference Share Capital

In the second half of 2009 the Company issued 910.000 convertible redeemable preference shares with a nominal value of €1 each and a share premium of €82.000 (€0,2 per share). During 2010, 780.000 of these were converted into 780.000 ordinary shares, thus reducing the convertible redeemable preference share capital to €130.000 plus €6.000 of share premium (€0,2 per share). In addition, 65.000 shares were converted into ordinary shares at their issued value (€1,2 per share), on the 18th of March 2011.

Minimum Initial Capital

In accordance with Section 67 of Law 144(I)/2007, the Company's own funds should not have been less than its minimum initial capital, which corresponds to the amount of €1.000.000. However, the Company has communicated to CySEC this temporary decrease in its own funds and by 18th March 2011 it converted 65.000 convertible

redeemable preference shares with nominal value €1 each to ordinary shares at their issued value, i.e. €1,2 per share (total: €78.000 including share premium). In addition, the Company is in the process of issuing additional 538.000 ordinary shares at the price of €1,30 per share, of which 376.285 ordinary shares were allotted and fully paid by the 16th of May 2011, increasing the Company's own funds by €489.170.

4. Capital Requirements

The minimum capital requirements of Trading Point of Financial Instruments Ltd as at 31st December 2010, broken down by risk category, are presented in Table 2 below:

Table 2: Minimum Capital Requirements (€000)		
Risk Category	Approach	Capital requirements
Credit Risk	Standardized Approach	24
Market Risk	Standardized Approach	115
Operational Risk	Basic Indicator Approach	117
Total Capital Requirements		256

Capital Adequacy Ratio

As at 31st December 2010, the capital adequacy ratio of Trading Point of Financial Instruments Ltd stood at 21,65%.

5. Credit Risk

Credit Risk arises when a failure by counterparties 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 from third parties. 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. The Company also has policies to ensure that customers place sufficient funds prior to entering into new deals.

The Company uses the Standardized Approach for measuring Credit Risk. As at 31st December 2010, no credit risk mitigation techniques were applied as the Company did not use any form of collateral during the period.

Table 3 below presents the allocation of Credit Risk by exposure class as at 31st December 2010:

Table 3: Exposure Value and Minimum Capital Requirements (€000)		
Exposure Class	Total Exposure Value	Minimum Capital Requirements
Institutions	646	10
Corporates	87	7
Other Items	92	7
Total	825	24

Table 4 presents the average amount of the exposures over the period, broken down into the different types of exposure classes:

Table 4: Average Exposure Value (€000)	
Exposure Class	Average Exposure Value*
Institutions	716
Corporates	33
Other Items	160
Total	909

* Average Exposure was calculated using the exposures of 31/10/2010, 30/11/2010 and 31/12/2010

Risk Weighted Assets and Credit Quality Steps

Institutions

For its exposures to institutions, the Company has used the ratings provided by Fitch to determine the applicable risk weight. Drawing on this, all exposures of the Company to institutions were assigned a 20% risk weight.

Corporates

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

Table 5 below presents a breakdown of the Company's Credit Risk exposures by residual maturity and exposure class:

Table 5: Exposure Value by Residual Maturity (€000)			
Exposure Class	Less than or equal to 3 months	More than 3 months	Total
Institutions	646	---	646
Corporates	9	78	87
Other Items	---	92	92
TOTAL	655	170	825

Table 6 presents the exposures of the Company by geographic area:

Table 6: Exposure Value by Country (€000)					
Exposure Class	Cyprus	UK	USA	Other	Total
Institutions	292	184	170	--	646
Corporates	83	--	1	3	87
Other Items	92	--	--	--	92
TOTAL	467	184	171	3	825

Table 7 below analyses the Company's exposures by industry sectors, as at 31st December 2010:

Table 7: Breakdown of Exposures into Industry Sectors (€000)			
Exposure Class	Financial	Other	Total
Institutions	646	--	646
Corporates	86	1	87
Other Items	--	92	92
TOTAL	732	93	825

The Company is subject to Counterparty Credit Risk through its positions in derivative contracts, and has employed the Mark-to-Market method to calculate the capital requirement arising from these exposures. Details of the Company's Mark-to-Market calculations, as at 31st December 2010, are provided in the table below:

Table 8: Counterparty Credit Risk Exposures (€000)				
Underlying Instrument	Market Value	PFCE%	Final Exposure	Capital Requirements
Rolling FX Spot	-55	1%	25	1
Silver	0	7%	1	0
TOTAL			26	1

Impairment

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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).

The Company did not record any provisions or impairments as at 31st December 2010.

6. Market Risk

Market risk is the risk that the value of financial instruments will fluctuate as a result of changing market prices. The Company uses the Standardized Approach for measuring Market Risk. The Table below shows the Capital Requirements for Market Risk as at 31st December 2010:

Table 9: Minimum Capital Requirements for Market Risk (€000)	
Type of Market Risk	Minimum Capital Requirements
Foreign Exchange Risk	110
Commodity Risk	5
Interest Rate Risk	0
Total	115

Foreign Exchange Risk (or Currency Risk) is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency Risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency other than the Company's reporting currency. The Company's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

Commodity Risk arises from the firm's positions in derivative contracts for which the underlying instrument is silver and which are booked in the trading book. The capital requirement for Market Commodity Risk was calculated using the Simplified Approach.

Interest Rate Risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Company is exposed to Market Interest Rate Risk through its positions in FX derivatives (rolling FX spots), which are booked in the trading book due to their short-term trading outlook. Nevertheless, no capital requirement arises from these positions, thanks to the characteristics of the instruments in question.

Liquidity Risk arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but it can also increase the risk of losses. The Company has procedures with the object of minimizing such losses, which consist of maintaining sufficient cash and other highly liquid current assets.

7. Operational Risk

Operational Risk is the risk of loss derived from the deficiencies relating to the Company's information technology, control systems, human error, natural disasters and unauthorized activities.

The Company uses the Basic Indicator Approach for measuring its minimum capital requirements for Operational Risk. As at 31st December 2010, the capital requirements for Operational Risk amounted to €17.000.

The Company manages Operational Risk through a control-based environment in which processes are documented and transactions are reconciled and monitored. This is supported by the Internal Audit function and by the continuous monitoring of operational risk incidents in order to ensure that past failures are not repeated.