DJ International Consulting Ltd

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 Teletrade DJ International Consulting 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 license number 158/11, which entitles the Company to operate locally and outside Cyprus.

According to its CIF license, the Company is authorized to provide the following investment and ancillary services:

- Reception and transmission of orders in relation to one or more financial instruments
- Execution of orders on behalf of clients
- Dealing on own account
- Portfolio management
- Investment advice
- Safekeeping and administration of financial instruments, including custodianship and related services
- Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction
- Foreign exchange services where these are connected to the provision of investment services
- Investment research and financial analysis or other forms

Disclosure Policy

The Company discloses information in relation to its capital requirements 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 major duties of the Board of Directors of Teletrade DJ International Consulting 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 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 applicable laws 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 applicable legislation, 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 the 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 applicable laws and directives
- Recommending specific remedial measures in case of detection of any weakness or failure by the Company to comply with its regulatory obligations
- 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 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 are analyzed in Table 1 below:

Table 1: Capital Base (€000)	
Original Own Funds (Tier 1)	**31 December 2012**
Share Capital	191
Share Premium	1.710
Accumulated income/(losses)	(54)
Audited income / (loss) for the year	(405)
Total Eligible Own Funds	**1.442**

Share capital

Authorised capital
During 2012, the authorised share capital of the Company was increased from €101 thousand divided into 101.200 ordinary shares of nominal value of €1.00 each to 191.200 ordinary shares of a nominal value of €1.00 each, by a creation of 90.000 ordinary shares of a nominal value of €1.00 each under the same terms and with the same rights in all respects as the existing shares.

Issued capital
During 2012, the Company issued and allotted to the existing shareholders an additional 90.000 ordinary shares with nominal value of €1.00 and at a premium of €9.00 each. This increased its share capital from €101 thousand to €191 thousand, and its share premium from €900 thousand to €1.710 thousand.

Capital Adequacy Ratio

As at 31 December 2012, the Company’s capital adequacy ratio was 82,37%.

4.CAPITAL REQUIREMENTS

Minimum regulatory capital requirements

The total capital requirements of the Company as at 31 December 2012 amounted to €140 thousand and are analyzed in Table 2 below:

Table 2: Minimum Capital Requirements (€000)	
Risk Category	**Minimum Capital Requirements**
Credit Risk	35
Market Risk	0
Operational Risk	105
Total	**140**

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 products and services are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables. In addition, the Company has policies to limit the amount of credit exposure to any financial institution.

The Cyprus Government is in the process of negotiating with the European Commission, the European Central Bank and the International Monetary Fund for financial support. As a result of ongoing negotiations, there is uncertainty as to the economic environment of Cyprus. The two largest financial institutions in Cyprus already receiving support from the «Emergency Liquidity Assistance» and any negative development will have a dramatic impact on the entire banking system and the economy. As a result, there are uncertainties as to the Company’s bank deposits maintained with one of the two largest banking institutions which, as at 31 December 2012, amounted to €1.169 thousand.

Furthermore, the Company’s management is unable to predict all developments which could have an impact on the Cyprus economy and consequently, what effect, if any, they could have on the future financial performance, cash flows and financial position of the Company. 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 Standardised Approach for the calculation of the minimum capital requirements for credit risk.

Table 3 below presents the allocation of credit risk in accordance with the Standardised Approach exposure classes:

Table 3: Exposure Classes and Minimum Capital Requirements (€000)		
Exposures at 31 December 2012	**Total Exposure Value**	**Minimum Capital Requirements**
Exposure Class		
Institutions	1.439	23
Corporates	101	8
Other Items	54	4
Total	**1.594**	**35**

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

Table 4: Exposure amount per risk weigh t (€'000)	
Risk Weight	**Exposure Amount**
20%	1.439
100%	155
Total	**1.594**

Risk Weighted Assets and Credit Quality Steps

Institutions

As at 31 December 2012, the Company's exposures to Institutions resulted from its deposits with credit institutions. The Company used the credit ratings of Fitch, Moody's and Standard & Poor's to rate its exposures to Institutions, based on the Central Government Risk Weight based method. A breakdown of these exposures by Credit Quality Step ("CQS") is given in the following Table:

Table 5: Breakdown by CQS(€'000)			
Exposure Class	**CQS 3**	**CQS 5**	**Total**
Institutions	270	1.169	**1.439**

We note that, due to the fact the original maturity of all exposures to institutions was less than 3 months, they were assigned a risk weight of 20%.

Average Exposure

The average exposure of the Company in 2012, broken down by asset class, is shown in Table 6 below:

Table 6: Average Exposure in 2012 (€'0 00)	
Exposure Class	**Average Exposure**
Institutions	1.220
Corporates	51
Other Items	30
Total	**1.301**

Residual Maturity of Credit Risk Exposures

Table 7: Exposure Classes and Residual Maturity (€'000)			
Exposures at 31 December 2012	**Maturity ≤ 3 months**	**Maturity > 3 months**	**Total**
Exposure Class			
Institutions	1.439	-	**1.439**
Corporates	-	101	**101**
Other Items	-	54	**54**
Total	**1.439**	**155**	***1.594***

Geographic Distribution

Table 8: Exposure Classes by Country (€'000)				
Exposures at 31 December 2012	**Cyprus**	**Latvia**	**UK**	**Total**
Exposure Class				
Institutions	1.169	270	-	**1.439**
Corporates	88	-	2	**90**
Other Items	54	-	-	**54**
Total	**1.311**	**270**	**2**	***1.583***

The corporate exposure amounts reported in Table 8 above do not include an amount of €11 thousand, which reflects the profit made by the Company on its positions with its clients, which is broken down into several different European countries.

Credit Risk Mitigation and Counterparty Credit Risk

As at 31 December 2012, the Company was exposed to Counterparty Credit Risk through an FX CFD position with a client. The capital requirement for this risk was calculated using the Mark-to-Market approach. The position was also secured by cash collateral (i.e. the margin deposited by the client in order to be able to conduct the trade), which was used to mitigate the final exposure based on the Simple Method for Credit Risk Mitigation. Due to the fact that the Mark-to-Market exposure was immaterial (i.e. less than €60 thousand), the net effect of credit risk mitigation was immaterial.

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 the end of December 2012, the Company had not recognized any impairment losses nor did it make 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 of the Company are responsible 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 2012, the minimum capital requirements under this approach, using actual income figures for 2011 and 2012 and forecasted figures for 2013, amounted to €105 thousand.

4.3.**Market and Liquidity Risk**

General

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments.

4.3.1**Market Risk**

Currency risk
Currency risk results from adverse movements in the rate of exchange on transactions in foreign currencies. As at year end, the Company was not exposed to any currency risk.

Interest rate risk
Interest rate risk reflects the Company's exposure to adverse movements in interest rates. It arises as a result of timing differences on the reprising of assets and liabilities.

4.3.2**Liquidity Risk**

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 has procedures with the object of minimizing such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

Capital Requirements

As at 31 December 2012, the Company had exposures to interest rate risk arising from its trading book positions in Forex CFDs. However, due to the very short-term nature of these positions, the capital requirement for Interest rate risk was zero.

5.**REMUNERATION**

The remuneration policy of Teletrade DJ International Consulting Ltd is set by the Senior Management and the Board of Directors. Decisions with regards to remuneration levels and salary increases of employees are taken by the CEO in consultation with the Board.

Performance is assessed using a set of criteria that differ according to the position and responsibilities of the employee concerned. In 2012, remuneration consisted of fixed monthly salaries and an annual performance-based bonus.

Table 8 below presents a breakdown of gross annual remuneration by business area, for those categories of staff whose professional activities have a material impact on the risk profile of the Company:

Table 9: Aggregate Remuneration by Business Area (€'000)	
Business Area	**Aggregate Remuneration**
Control Functions	20
Reception, Transmission & Execution of orders	73
Dealing on Own Account, Portfolio Management & Investment Advice	36
Marketing and Credit & Loans	50
Total	**179**

Control functions include the persons employed in the Risk Management and AML & Compliance Department.

The aggregate remuneration for 2012, 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 9: Aggregate Remuneration by Senior Management & Executive Directors and other staff (€'000)				
Personnel	**No. of people**	**Fixed (Cash)**	**Variable (Cash) Non-Cash**	**Total**
Senior Management & Executive Directors	8	138	0	138
Other Staff	3	42	0	42
Total	**11**	**180**	**0**	**180**

The above members of staff did not receive any non-cash remuneration.

"Senior Management & Executive Directors" consists of the heads of the departments presented in Table 6 above and the executive directors of the Company. "Other Staff" includes the personnel employed in the departments mentioned above.