GROUP HOLDINGS LTD

FIBO GROUP HOLDINGS LIMITED

Pillar III disclosures for the year ended 31 December 2010

Cyprus 2010

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Independent Auditor's Report to the Cyprus Securities and Exchange Commission in respect of FIBO Group Holdings Limited for the year ended 31 December 2010 pursuant to paragraph 37(1) of Chapter 7 of Part C of the Directive DI144-2007-05 of the Cyprus Securities and Exchange Commission for the Capital Requirements of Investment Firms

1. We report in relation to the fair presentation of the disclosures of **FIBO Group Holdings Limited** (the "Company") for the year ended 31 December 2010, required by paragraph 34(1) of Chapter 7 of Part C (the "Disclosures") of the Directive DI144-2007-05 of the Cyprus Securities and Exchange Commission for the Capital Requirements of Investment Firms (the "Directive"). The Disclosures, which are set out on the Company's website, are attached as an Appendix and have been initialed for identification purposes.

We would like to draw the attention to the fact that the Company did not carry out any operations during the year ended 31 December 2010. The Company commenced its operations in March 2011.

Respective responsibilities

2. The Company's Board of Directors is responsible for the preparation and fair presentation of the Disclosures in accordance with the Directive. Our responsibility is to express an independent conclusion in relation to the fair presentation of the Disclosures, in all material respects, in accordance with the requirements of the Directive.

Scope of work performed

3. We conducted our work in accordance with International Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information". This Standard requires that we plan and perform our work to obtain limited assurance whether any matters have come to our attention that cause us to believe that the Disclosures are not fairly presented, in all material respects, in accordance with the requirements of the Directive. Our procedures included verifying, on a sample basis, the compliance of the Disclosures with the requirements of paragraph 34(1) of Chapter 7 Part C of the Directive, as well as obtaining evidence supporting certain of the amounts and notifications included in the Disclosures. Our procedures also included an assessment of any significant estimates made by the Company's Board of Directors in the preparation of the Disclosures. We believe that our procedures provide a reasonable basis for our conclusion.

4. The procedures performed do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, and hence we do not express any assurance other than the statement made below. Had we performed an audit or review in accordance with International Standards on Auditing or International standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Conclusion

5. Based on our work described in this report, nothing has come to our attention that causes us to believe that the Disclosures for the year ended 31 December 2010 are not fairly presented, in all material respects, in accordance with the requirements of the Directive.

6. Our report is solely for the purpose as set out above and is not to be used for any other purpose or to be distributed to any other parties without our prior consent in writing. This report relates only to the Disclosures required pursuant to paragraph 34(1) of Chapter 7 of Part C of the Directive and does not extent to any financial statements or other financial information of the Company.

Andreas Efthyvoulou
Certified Public Accountant and Registered Auditor
for and on behalf of
PEK LIMITED
Certified Public Accountants and Registered Auditors

Lefkosia, Cyprus

27 April 2011

1. Introduction

FIBO Group Holdings Limited ('the Company') is regulated by the Cyprus Securities and Exchange Commission ('CySEC') under authorisation number 118/10 issued on 14 June 2010 by which it is licenced to operate as a Cypriot Investment Firm and to provide investment and ancillary services in Cyprus and on other Member-States of the European Union. The principal activities of the Company are the provision of investment services (receipt, transmission and execution of clients' orders and provision the clients with the facility of online trading on the international financial markets) and safe custody in accordance with the provisions of the applicable legislation and requirements issued by the Cyprus Securities and Exchange Commission.
This report has been prepared in accordance with the requirements of the Directive DI144-2007-05 for the Capital Requirements of Investment Firms ('the Directive') issued by the Cyprus Securities and Exchange Commission. The Directive implements the European Union's Capital Requirements Directive ('CRD').

The Directive describes the Basel II framework which is based on three pillars:

- Pillar I covers the standards that set out the minimum regulatory capital requirements that are required for credit, market and operational risk

- Pillar II covers the Supervisory Review Process which assesses the internal capital adequacy processes. Investment firms and Supervisors have to evaluate and assess whether an Investment Firm should hold additional capital against risks not covered in Pillar I

- Pillar III (Market discipline) covers transparency and the obligation of Investment Firms to disclose meaningful information to the market related to their risks, capital, and generally risk management.

The Company's Pillar III disclosures below have been prepared using 31 December 2010 data in accordance with the Directive.

The requirements of the Directive apply to the Company on an individual basis.

2. Risk Management Objectives and Policies

2.1 Risk Management Organisation

Risk is inherent to the Company's business and activities. The Company's ability to identify, measure, monitor and manage each type of risk to which the Company is exposed is an important factor in its financial stability, performance, reputation and in the achievement of its strategic objectives.

Risk Management Framework

This framework provides a comprehensive approach of the Company for identifying, measuring, monitoring and managing each type of risk to which the Company is exposed. By adopting a formal approach to risk management, we achieve better outcomes as a result of systematically identifying and analysing the wide range of issues that affect decision-making.

The risk management framework has been developed to:

- ensure that the primary objective of the risk management process is achieved. This is to ensure that a level of capital adequacy is maintained so that the total risk taken by the Company is no greater than the Company's ability to absorb losses

- allow the Company to proactively manage its risks in a systematic and structured way and to continually refine its process to reduce its risk profile and ultimately its capital requirements

- ensure appropriate strategies are in place to mitigate or transfer risks

- embed the risk management process and ensure it is an integral part of the Company's process of strategic decision making and capital planning

- help create a risk awareness culture at all departments within the Company

- engage the Company's management's attention to the management, monitoring, reporting and review of identified risks as well as considering new and emerging risks on a continuous basis

Risk Management Process

The risk management process is integrated within the Company through established internal policies, systems, controls and comprehensive reporting, commensurate with the complexity of the Company's activities and structure. The system of internal controls provides reasonable assurance about the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with applicable laws and regulations. The risk management process provides for the continuous monitoring of the system of internal controls to ensure its effectiveness.
The Risk Management Department is responsible for determination, evaluation and efficient management of the risks inherent in the provision of investment services. The department's aim is to provide these services in accordance with the provisions of the Investment Services, Activities and Regulated Markets Law of 2007 (Law 144(I)/2007) and Directives issued by the CySEC, as well as the internal regulations of the Company.

The Risk Management Department of the Company has the following duties and responsibilities:

- Development of policy regarding the assumption, follow up and management of risk which will include guidelines regarding possible risk exposure and acceptable risk levels

- Development of risk management policy for clients and counterparties for the following risk:
    a. credit risk
    b. liquidity risk
    c. market risk
    d. leverage risk

- Analysis for the Investment Committee of the potential hazards associated with the recommended frameworks on which investment decisions are based

- Credit assessment (including quality and financial analysis) of the clients when opening new client accounts and classification of clients according to the Company's risk criteria and limits

- Credit assessment of counterparties and classification of counterparties according to the Company's risk criteria and limits

- Monitoring of investment risk undertaken by the Company for each client, counterparty and the Company as a whole

- Estimated risk of the Company's clients' and counterparties' participation in money laundering and/ or terrorist funding activities

- Monitoring of deals executed with counterparties in relation with securities' market prices
- Monitoring of brokerage and asset management transactions as regards adherence to established risk limits
- Monitoring risk associated with margin trading clients
- Monitoring day-to-day operational risks
- Building a risk-aware culture within the Company and providing relevant trainings
- Maintenance of appropriate internal control systems designed to manage key risk areas
- Providing an annual written report to the Company's Board of Directors on the matters of the Department's responsibilities indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies.

The Company's strategies and processes for managing risks, as well as the measurement systems used and the hedging and mitigating strategies are analysed below by risk division.

2.2 Credit Risk Management

Credit risk is defined as the potential that a company borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The goal of credit risk management is to maximise a company's risk-adjusted rate of return in the provision of investment services by maintaining credit risk exposure within acceptable parameters. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of an investment company.

Measurement and Assessment

The Credit Risk Management Policy establishes the frame work for credit assessment, structure of limits and process of approval and monitoring of credit risks. The Company manages the credit risk inherent in its entire portfolio as well as the risk attributable to individual credits or transactions. Credit exposures from related accounts are aggregated and monitored on a consolidated basis.

The Company's Risk Manager sets targets and limits for the composition and quality of the loans, advances and trade debtors portfolio and monitors compliance with them. Limits approval is done by the Investment Committee of the Company on the basis of List of limits by the Company's Risk Manager.

Creditworthiness Assessment of Clients and Counterparties

Evaluation of client or counterparty creditworthiness involves analysis of financial and non-financial data, including submitted pledge to cover their credit risks.
Financial data includes:

- balance sheet,
- income statement,
- diversification,
- leverage and other information from financial statements.

Non-financial data includes:

- qualitative characteristics (such as industry review, business risk, etc)
- reputation
- assessment of credit risk by external assessors

All required information is collected from the clients during account opening KYC ('Know Your Client') procedures and from the counterparties during due diligence procedures.
The assessment of the quality of the portfolio is carried out using credit rating and credit scoring systems to determine the creditworthiness of customers. Credit Rating approach to credit risk classifies companies based on their rating with External Credit Assessment Institutions (ECAI) and calculates the historical percentage of defaults for each rating. The Company only uses ECAIs that have been recognised and announced as eligible by CySEC.

Efficient Monitoring and Control

The Company's Risk Manager constantly reviews clients and counterparties creditworthiness. Monitoring includes review of the following data:

- Previously collected information
- Limits set previously for this client or counterparty
- All financial data information updates collected from the last review (not less than one year)
- All non-financial information (not less than six months)

The purpose of such monitoring is to ensure that limits set previously to clients and counterparties are valid and there is no negative information stipulating high probability of counterparty's/ client's failure to carry its obligations. Following the review, Risk Management amends if required the limits set previously for the particular client or counterparty.

Approved credit limits are registered on a protected excel spreadsheet and circulated to all traders and front office and back office employees as an extra monitoring tool. In cases where a trader enters a deal which results in violation of credit limits, the deal is blocked by the system and is not executed. The Risk Manager is informed of any violations and makes decision whether to accept the violation or close the deal.

2.3 Market Risk Management

Market risk reflects the extent to which the return of the security varies in response to, or in association with, variations in the overall market returns. Market risk is associated with the Company's open positions, which are exposed to the risks of changes in the market. Credit, country, liquidity, exchange rate and interest rate risks in particular have an impact in the form of price fluctuations.

The Company's Risk Management Department is responsible for measuring and monitoring of market risk, setting out the policy for management of this type of risk and approving acceptable market risk limits, such as position limits, stop-loss limits etc.

The lack of sophistication in monitoring of emerging financial markets can result in poor levels of market transparency, liquidity, efficiency and regulation in the emerging markets. Moreover, high volatility and large price differences are characteristic of these markets. Finally, inadequacy or absence of regulatory measures gives rise to an increased danger of market manipulation or insider trading.

2.4 Operational Risk Management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal risk but excludes reputation and strategic risks. It is embedded in every business activity and potential losses may occur in all Company's activities.

The Company has adopted the Basic Indicator Approach for the assessment of own funds requirements for operational risk. The capital requirement for operational risk under the Basic Indicator Approach is equal to 15% of a relevant indicator, which is defined in Annex X, Part 1 of Part C of the Directive as the average over three years of the sum of net income.

3. Own Funds

The own funds of FIBO Group Holdings Limited as at 31 December 2010 were EUR 685,126 as shown below:

Original Own Funds (Tier 1)	**EUR**
Share Capital	1,100
Share Premium	999,900
Losses carried forward	-315,872
Total Tier 1	**685,128**
Deductions from Original Own funds	**NIL**
Total Eligible Own Funds	**685,128**

3.1 Original Own Funds

<u>Share Capital</u>

As at 31/12/2010 the share capital of the Company comprised of 1,100 shares with a nominal value of € 1 each for the total amount of € 1,100. The share premium of the company as at 31/12/2010 was € 999,900.

4. Minimum Required Own Funds for Credit, Market and Operational Risk

4.1 Company's Approach to Assessing the Adequacy of its Internal Capital

Different approaches based on the different categories of risks are issued to assess the adequacy of the Company's internal capital to support current and future activities. These approaches are described below.

Standardised approach for Credit Risk

The necessary mechanism for the capital calculation in accordance with the Standardised Approach is implemented in accordance with the Directive, paragraphs 2-7 of Chapter 1 of Part C.

The following table shows 8% of the risk-weighted Company's exposure amounts as at 31/12/2010 for each of the exposure classes specified in paragraph 3 of Chapter 1 of Part C of the Directive.

Minimum Capital Requirements in Relation to Operational Risk

The minimum capital requirement in relation to operational risk calculated in accordance with the Basic Indicator Approach (Part C, Chapter 5, paragraph 27 to 29 of the Directive) EUR 117,000

Description	Amount Year 2012 EUR '000	Amount Year 2011 EUR '000	Amount Year 2010 EUR '000
Revenue	1,725	915	-
Interest income	40	30	-
Other income	-	-	-
Cost of sales	-240	-112	-
Net finance (costs)/ income	-20	-12	18
Total	**1,506**	**817**	**18**
Average of 3 years		780	
Capital requirement		117	

Position, Foreign Exchange and Commodity Risks Own Funds Requirements

The capital requirement in relation to position, foreign exchange and commodity risks calculated in accordance with the part D, Annexes I-IV of the Directive amounts to NIL.

5. Counterparty Credit Risk

As at 31 December 2010, the Company did not have any margin lending transactions outstanding.

6. Company's Exposure to Credit Risk and Dilution Risk

Past due accounts receivable are defined as all accounts receivable where the counterparty has failed to make a payment when it was contractually due. At each balance sheet date the Company assesses whether there is any objective evidence that accounts receivable (/debts) are impaired. A debt is impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the liability (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the debt or the group of debts, that can be reliably estimated.

6.1 Total Amount of Exposures

Exposures by different types of exposure classes as at 31 December 2010

Type	ST Claims on institutions	Administrative bodies	Corporate	Other Items	Total
	EUR	EUR	EUR	EUR	EUR
Cash and cash equivalent	1,302,395	-	-	-	**1,302,395**
Trade receivables	-	-	-	-	-
Other receivables	-	94,713	10,791	6,188	**111,692**
Prepayments	-	-	6,050	-	**6,050**
Amounts due from related parties	-	-	-	-	-
Fixed assets	-	-	-	49,023	**49,023**
Total	**1,302,395**	**94,713**	**16,841**	**55,211**	**1,469,160**

6.2 Geographical Distribution of the Exposures

All the exposures listed on the table above relate to the institutions and other organisations of the Republic of Cyprus.

6.3 Distribution of the Exposures by Industry or Counterparty Type

Industry/ Counterparty type	ST Claims on institutions	Administrative bodies	Corporate	Other Items	Total
	EUR	EUR	EUR	EUR	EUR
Financial institutions	1,302,395	-	-	-	1,302,395
Others	-	94,713	16,841	55,211	166,765
Total	**1,302,395**	**94,713**	**16,841**	**55,211**	**1,469,160**

6.4 Residual Maturity Breakdown of the Exposures

	ST Claims on institutions	Administrative bodies	Corporate	Other Items	Total
	EUR	EUR	EUR	EUR	EUR
Less than 1 year	1,302,395	34,911	6,050	6,188	**1,302,395**
Indefinite maturity	-	59,802	10,791	49,023	**166,765**
Total	**1,302,395**	**94,713**	**16,841**	**55,211**	**1,469,160**

6.5 Impaired Exposures and Past Due Exposures

As at 31 December 2010, the Company did not have any impaired exposures or past due exposures.

7. The Standardised Approach

7.1 Exposure Classes for which External Credit Assessment Institutions ('ECAI') or Export Credit Agencies ('ECA') are used

The Company uses external ratings of Moody's. These ratings are used for all relevant exposure classes, which are the following:

- Claims or contingent claims on institutions;
- Claims or contingent claims on corporates (it should be noted that most corporates are unrated)
- Short-term claims on institutions and corporates

7.2 Transfer of Credit Assessments onto Items not included in the Trading Book

The exposures are classified into the above exposure classes, and are then ranked into respective credit quality steps, that determine the risk-weight to be used in accordance with the provisions of the Directive.

In the case of financial institutions, the credit quality step is determined, according to the rating of the country under whose supervision they operate. It should be noted that all exposures with financial institutions with original maturity of three months or less, are risk-weighted 20% unless the counterparty is unrated and the risk-weight assigned to its country is higher.

7.3 Association of the External Rating of Each Nominated ECAI or ECA with Credit Quality Steps

The Company complies with standard association published by CySEC, regarding the association of the external rating of each nominated ECAI or ECA with the credit quality steps prescribed in Annex VI of the Directive.

7.4 Exposure Values Associated with Credit Quality Steps

The exposure values before and after risk mitigation associated with each credit quality step prescribed in Annex VI of Part C of the Directive as at the 31 December 2010 were as follows:

Rating	**Total exposure**
	EUR
A2	1,302,395
Not rated	166,765
	1,469,160

As at the year-end the Company did not employ any credit risk mitigation for its exposures, therefore, the above amounts indicate the exposures both before and after credit risk mitigation.

8. Exposures in Equities not included in the Trading Book

The company did not hold any equity securities not included in the trading book as at the 31 December 2010.