

APPENDIX

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

EASY FOREX TRADING LTD

31 DECEMBER 2008

Introduction

For the purposes of Directive DI144-2007-05 of the Cyprus Securities and Exchange Commission for the Capital Requirements of Investment Firms, Easy Forex Trading Ltd (“the firm”) publicly discloses in this report the information laid down in the Directive, which requires the disclosure of information relating to the risk management objectives and policies of Easy Forex Trading Ltd for each separate category of risk, its own funds and the firm’s exposure to market risk, credit risk and operational risk.

The firm is obliged to disclose the above information in order to encourage market discipline and disclose the assessment process in place to monitor all exposures which the firm is exposed to under its business model.

The disclosures in this report are verified by the external auditor of Easy Forex Trading Ltd, PricewaterhouseCoopers Limited. A review will be carried out frequently and at least annually. Considering the scale, size and complexity of the firm and its operations, and the financial instruments offered to its clients, it should be noted that some or all of the disclosures need not be published more frequently than annually.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 firm’s website at <http://en.easy-forex.com/EU/Home.aspx>

Background

Easy Forex Trading Ltd, a Cyprus Investment Firm regulated by the Cyprus Securities and Exchange Commission (“CySEC”) under License No. 079/07, has been licensed since May 2007 http://www.cysec.gov.cy/licence_members_1_en.aspx.

The disclosures in this report are effective as at 31st December 2008.

Easy Forex Trading Ltd is licensed to carry out the following investment and ancillary services:

- Reception and transmission of orders in relation to one or more financial instruments
- Dealing on own account
- Granting credits or loans to an investor to allow him to carry out a transaction in 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

Regulatory Capital

The firm's capital base comprises only of original Own Funds (Tier 1 Capital), that is, share capital and reserves. Reserves include only retained earnings (accumulated retained profits and audited profit/loss for the year).

The firm's capital base as at 31st December 2008 is as follows:

	USD
Share capital	1,416,817
Reserves	318,653
Total Own Funds	<u>1,735,470</u>

Risk Management

The responsibility of the overall risk management lies with the Board of Directors. The Management needs to continually identify, assess, monitor and control each type of risk. More specifically, when managing risks, the responsibilities of the Board of Directors and Senior Management are as follows:

- Assess on a continuous basis the effectiveness of the policies, arrangements and procedures in place;
- Decide on the Company's risk bearing capability and strategy;
- Review the Risk Assessment Report carried out by the Risk Management Department and take appropriate action where necessary; and
- Ensure that the Company has the ability to cover its financial needs and capital requirement at any time.

The Risk Management Committee is dedicated primarily to managing the credit, market and operational risks of the Company, resulting from the Company's operations, and as part of its responsibilities it has to set out, approve and regularly update the risk strategy as well as to monitor all risks on an ongoing basis. The Risk Management Department's main responsibilities include:

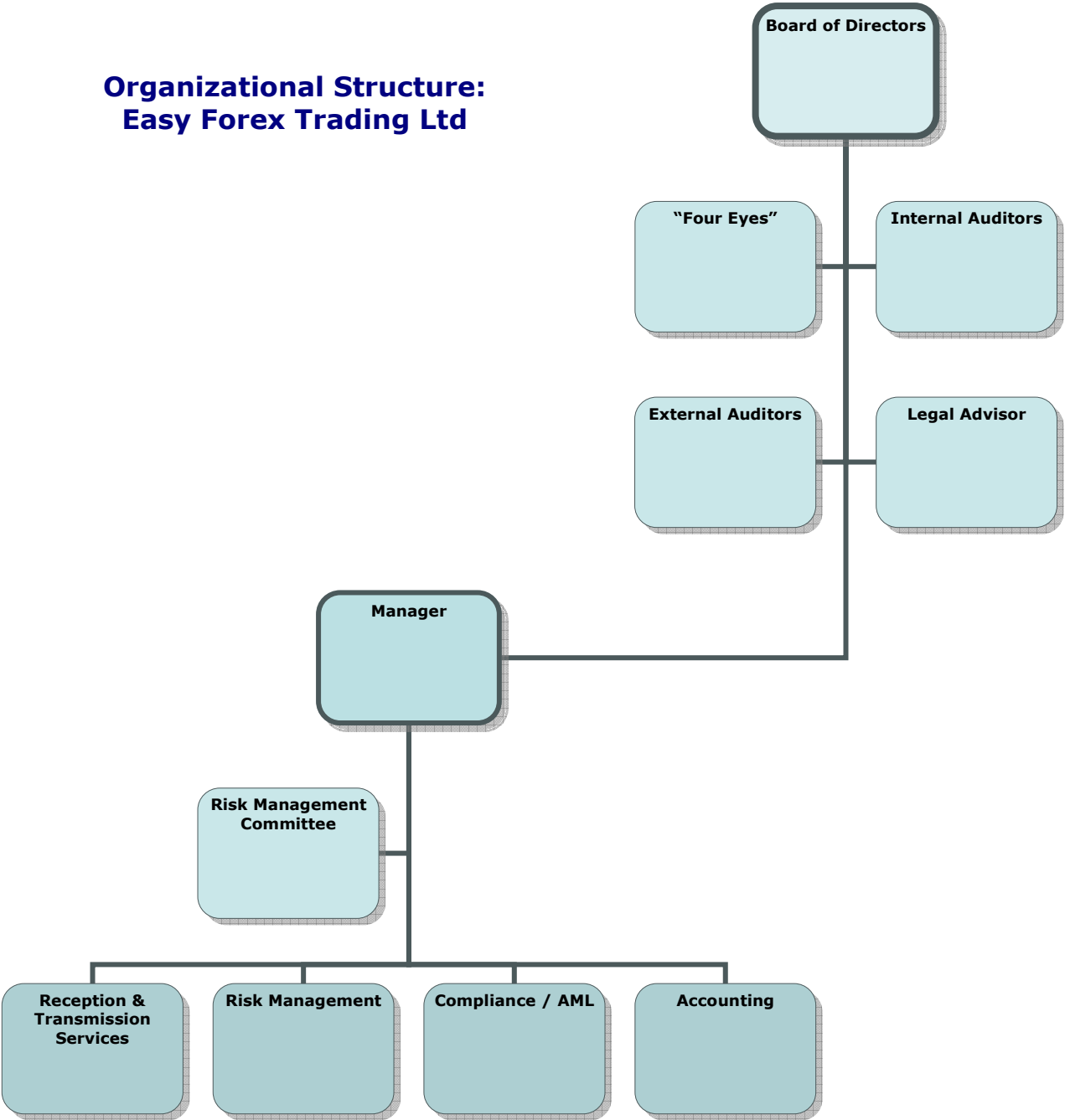
- Establish, implement, and maintain adequate risk management policies and procedures which identify the risks relating to the Company's activities and processes;
- Monitor the adequacy and effectiveness of the risk management policies and procedures;
- Evaluate client financial transfers; and
- Monitor the investment risks undertaken by the Company and by each client on an individual basis.

The Risk Management Department is responsible for preparing, immediately in the event of any deficiency, on a frequent basis and at least annually, a report to the Senior Management indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies.

The Dealing in own account department, also responsible for risk management and hedging of client positions, ensures that the firm acts as the counterparty to all transactions performed by the clients, all of which are offset with the Parent Company.

Communication of information at all relevant levels of the firm is defined below in the organizational structure, which clearly specifies reporting lines and allocates functions and responsibilities:

**Organizational Structure:
Easy Forex Trading Ltd**



Capital Requirements

In accordance with CySEC's Directives 144-2007-05 & Directive 144- 2005 05(A) and as set out in the Basel II Accord and implemented in the European Union through the Capital Requirements Directive, Basel II uses a "three pillars" concept – (1) minimum capital requirements (addressing risk), (2) supervisory review and (3) market discipline – to promote greater stability in the financial system.

The most appropriate methods for measuring the capital requirement of the firm, according to the firm's management are as follows:

Standardized Approach for credit and market risk: The standardized approach sets out specific risk weights for certain types of credit risk. The standard risk weight categories are 0% for short term government bonds, 20% for exposures to OECD Banks, 50% for residential mortgages, 100% weighting on commercial loans and 150% rating for borrowers with poor credit ratings. The minimum capital requirement (the percentage of risk weighted assets to be held as capital) is 8%.

Basic Indicator Approach for operational risk: the firm must hold capital for operational risk equal to the average over the previous three years of a fixed percentage of positive annual gross income. The figures for any year in which the annual gross income is negative or zero are excluded from both the numerator and denominator when calculating the average.

Risk Category	Approach	Capital requirement USD '000 (31 December 2008)
Credit and Counterparty Risk	Standardized Approach	43
Market Risk	Standardized Approach	0
Operational Risk	Basic Indicator Approach	169
Total Capital Requirements		212

As at 31st December 2008, the capital adequacy ratio of Easy Forex Trading Ltd stood at 65%.

Credit Risk

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 balance sheet date. The firm has no significant concentration of credit risk from third parties. The firm has policies in place to ensure that customers place adequate funds prior to enabling them to enter into foreign exchange deals and that cash balances are held with high credit quality financial institutions.

The firm uses the Standardized Approach for measuring credit risk.

In regards to geographical distribution of the client base of the firm, all clients are resident in a European Union member state, and since the only methods customers are able to deposit are by credit card, bank/wire transfers and paypal, the firm's exposure to credit risk is not significant as all transfers are electronic originating from EU credit institutions.

The mitigation of credit risk is also achieved by using only reputable credit institutions in the European Union with low default risk and high credit ratings. The firm's exposures are concentrated in one sector, that of financial services, therefore does not require classifying exposures by counterparty or industry.

Market Risk

Market risk is the risk that the value of financial instruments will fluctuate as a result of changing market prices.

The firm uses the Standardized Approach for measuring market risk.

The firm does not have substantial market risk, apart from interest rate risk, liquidity risk, and foreign exchange risk.

Interest rate risk: Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The firm's income and operating cash flows are substantially independent of changes in market interest rates as the firm's interest bearing assets all bear a fixed interest rate.

The firm's interest rate risk arises from short-term deposits of its own capital. Deposits issued at variable rates expose the firm to cash flow interest rate risk. Deposits issued at fixed rates expose the firm to fair value interest rate 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. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

The management of the firm maintains flexibility in funding by maintaining availability under committed credit lines.

Foreign Exchange Risk: The firm is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to major strong currencies. This risk arises from the nature of its operations which relates to dealing in foreign currencies over the internet. This risk is, however, inherent in the operating activities of the firm. The firm acts as the counterparty to all transactions performed by the clients, all of which are offset with its parent company therefore eliminating any foreign exchange or price risks.

Foreign exchange risk also arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the firm's functional currency. All firm's income is in its functional currency, the United States Dollar, whereas the majority of expenditure is in a currency other than the functional currency, thus creating some foreign exchange risk.

Operational Risk

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

The firm uses the Basic Indicator Approach for measuring operational risk.

Operational risk is managed by the firm by monitoring all processes and transactions.

Monitoring: There are a few layers in the system which are monitored consistently to ensure sound operation:

- Hardware – internal monitoring software monitors the key components, such as disk space, CPU utilization, memory, etc.
- Quotes – since the quotes are the heart of the application, there are backup quotes channels; if the primary channel fails the system automatically and immediately switches to the backup channels.
- Software – there are many parameters of the software application that are monitored in order to have a complete view over the site activity. Such parameters are – logged in users, total sessions, open deals, open positions.

Backups: The system implements backup levels to ensure that there is no loss of data. A full back up of all information is to be recorded on a daily basis. Back up shall include:

- Web Site (the site and the related Back Office system) is fully backed up.
- Sensitive original paper documents
- Electronic files such as: Office documents, mail boxes, home directories of users.



Alternate Physical site to the current site: In case the Main Office in Limassol is not functional for any reason, the CEO or senior manager in charge may announce a temporary cessation of current location and transfer activity to any other Group company which will be available for the task.