



Disclosure and Market Discipline Report

Windsor Brokers Limited

Financial Year 2010

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I. Scope of the Report

Windsor Brokers Limited (hereafter the “Company”) is regulated by the Cyprus Securities and Exchange Commission (hereafter “CySEC”) and authorised to operate as a Cypriot Investment Firm since 20 May 2004, under the licence number 030/04. The Company has prepared this report to fulfill its obligations regarding the public disclosure of information laid down in Directive DI144-2007-05 for the Capital Requirements of Investment Firms (hereafter the “Directive”), issued by CySEC.

This report constitutes a summary of the disclosure and market discipline policy of the company. The company is applying the exception of Paragraphs 35(2) and (3), Chapter 7, Part C and Paragraphs 2 and 3, Part 1, Annex XII, Part C of the Directive DI144-2007-05. The full Disclosure and Market Discipline report has been reviewed and approved by the auditors of the company.

The Directive is based on the “three Pillar concept” as follows:

- Pillar 1 - Minimum Capital Requirements: the calculation of the total minimum capital requirements for credit, market and operational risk is presented, in addition to the calculation of the minimum ratio of capital to risk weighted-assets which is set to 8%.
- Pillar 2 - Supervisory Review Process: the key principles of supervisory review, transparency and risk management are discussed, with emphasis to be given to the development of an internal capital adequacy assessment process for ensuring compliance with regulatory requirements regarding capital adequacy.
- Pillar 3 - Market Discipline: the introduction of disclosure requirements and recommendations enhances comparability through the dissemination of information to the market that enables better assessment of the financial strength of investment firms.

Under Pillar 3, the Company is required to publicly disclose information about the capital it holds and each material category of risk it faces, including the strategies and processes it has in place in order to manage and monitor these risks. Disclosures are made regarding the risks referred to under points 1 to 14 of Part 2, Annex XII, Part C of the Directive and in case that these are not applicable, no reference is made. The aforesaid disclosures aim to strengthen market discipline and encourage transparency.

II. Risk Management Objectives and Policies

i. Risk Management Purpose:

The aim of the Company's Risk Management function is to establish effective risk management policies and procedures that ensure compliance with legislative requirements. In particular, through the efficient implementation of these policies the Company will be able to identify the risks relating to its activities, processes and systems and, where appropriate, to set the level of risk the Company is prepared to bear and willing to undertake.

In addition, the risk management strategies and processes will facilitate the process of an on-going assessment and maintenance of the amounts, types and distribution of internal capital that the Company considers adequate to cover the level of risks to which it might be exposed.

ii. Risk Management Policy:

This risk management policy is set and defined directly by the Board of Directors of the Company who has the full responsibility to update or amend it. The Board is also responsible for overseeing and approving the risk management strategy and policies, internal compliance and internal controls. Senior Management of the firm is required by the Board to assess risk management and associated internal compliance and control procedures and report back on the efficiency and effectiveness of risk management practices.

The process of risk management and internal compliance and control includes:

- Identifying and assessing significant risks that might impact upon the achievement of the company's objectives.
- Developing risk management strategies to manage identified risks and designing and implementing appropriate risk management policies and procedures.
- Monitoring the performance and improving the effectiveness of risk management procedures.

iii. Structure of the Risk Management Function:

The Company does not operate a separate Risk Management Department. Risk Management of the Company is performed by the Risk Management Committee.

The Senior Management in co-operation with the Company's employees are responsible for the monitoring of the risks to which their respective departments are exposed to, and to report to the Risk Management Committee. The Risk Management Committee reports directly to the Board of Directors.

III. Capital Adequacy

The Company ensures that it discharges fully its obligations that arise from the Directive by maintaining its capital above the minimum level set by the legislation. In this respect, the Company calculates its capital adequacy ratio, the eligible own funds and the regulatory capital requirements on an individual (solo/stand alone) basis.

The Company's capital adequacy ratio as at 31 December 2010 was equal to 42.81%, which is well above the minimum required ratio of 8%.

IV. Own Funds

The Company's eligible own funds consist entirely of original own funds. The total eligible own funds of the Company are not subject to any capital deductions or limits.

V. Credit Risk Management

In general, credit risk is the risk of financial loss that a party in a financial transaction is facing due to failure of the counterparty to meet its contractual obligations. In order to manage and monitor the credit risk the Company is facing throughout its activities, it has established sound and effective mechanisms and procedures that maintain credit risk exposures at tolerable levels.

For calculating its capital requirements for credit risk, the Company adopts the Standardised Approach as specified in paragraphs 2 to 7 of Chapter 1 of Part C of the Directive. For the application of the appropriate risk weights to each exposure, the Company takes into account the exposure class to which the exposure is classified and its credit quality, which can be determined by the credit assessment issued by an eligible External Credit Assessment Institution (hereafter “ECAI”).

Thus, the Company is using the credit ratings issued by the eligible ECAI Standard and Poor’s to determine the proper risk weight to be assigned to exposures to institutions, according to the credit quality step to which exposures to central government of the jurisdiction in which the institutions are incorporated are assigned, and to corporates according to the credit quality step to which exposures to corporates are assigned, based on the following table:

Credit Quality Step	Standard and Poor’s Credit Assessment	Risk Weight for Institutions	Risk Weight for Corporate
1.	AAA to AA-	20%	20%
2.	A+ to A-	50%	50%
3.	BBB+ to BBB-	100%	100%
4.	BB+ to BB-	100%	100%
5.	B+ to B-	100%	150%
6.	CCC+ and below	150%	150%

It shall be noted that exposures to credit institutions established in third countries where their central government is unrated and exposures to corporate which are unrated are assigned a risk weight of 100%.

Due to the fact that the Company does not accept collaterals of any form, there was no credit risk mitigation for the Company's credit risk exposures as at 31 December 2010.

VI. Market Risk Management

Market risk is the risk that the value of an investment will decrease due to movements in market prices and in particular, due to changes in interest rates, foreign exchange rates and equity and commodity prices. The associated market risk factors are the interest rate risk, the currency risk, the equity risk and the commodity risk.

The Company considers its exposure to interest rate risk to be significantly low, since its income and operating cash flows are substantially independent of changes in market interest rates, as the Company has no significant interest-bearing assets. Therefore, its exposure to market risk relates with the exposure it has to currency, equity and commodity risk. This arises mainly from its clients' net open positions and from the general conditions of the markets it trades.

Since the Company does not speculate by taking proprietary positions based on the anticipated market movements, it minimises its exposure to market risk by trading on own account and hedging clients' positions. The hedging strategy of the Company is determined by the Risk Management Committee, which determines the level of market risk the Company is prepared to tolerate.

The Company follows the Standardised Approach for calculating its market risk capital requirements and in particular, for calculating the capital requirements for position, foreign exchange and commodities risk as specified in Annexes I, III and IV of Part D of the Directive, respectively.

VII. Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, mechanisms, people and systems or from external events and it includes legal risk as well. It is inherent in all Company's business functions and can occur from a variety of circumstances such as fraud, error, omission or system failure.

For this reason the Company has in place a business continuity policy that in case of business interruption, it enables the preservation or at least the timely recovery and continuation of essential operations and functions. In addition, the exposure it has to its data providers is mitigated by ensuring the daily back up of its data and the maintenance, monitoring and update of its servers and networks.

For calculating its capital requirements for operational risk the Company follows the Basic Indicator Approach as described in Part 1, Annex X, Part C of the Directive.

VIII. Liquidity Risk Management

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. Liquidity risk also arises from the lack of marketability of a security or asset that cannot be traded quickly enough in the market in order to prevent or minimise a loss or to make a profit.

To minimise its exposure to liquidity risk, the Company has established procedures that enables to monitor on a daily basis its cash flows and to manage them properly through its Accounts Department. This allows the Company to maintain sufficient cash and highly liquid current assets in order to be able to cover its present or future financial liabilities.