

# **IKOS CIF LTD**

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**DISCLOSURES IN ACCORDANCE WITH  
BASEL II, PILLAR 3**

**YEAR 2008**

April 2009



**KPMG Limited**  
**Chartered Accountants**  
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## Independent Auditors' Report to the Cyprus Securities and Exchange Commission

1. We have performed the procedures agreed between us and the Board of Directors of IKOS CIF Limited (the "Company") with respect to the disclosures required under paragraph 34(1) of Chapter 7 of Part C (the "Disclosures") of the Directives DI144-2007-05 and DI144-2007-05(A) of the Cyprus Securities and Exchange Commission for the capital requirements of investment firms (the "Directives") for the year ended 31 December 2008, included in pages 3 to 11.
2. The Company's Board of Directors is responsible for the preparation and fair presentation of the Disclosures in accordance with the Directives. Our responsibility is to express an independent opinion on whether the Disclosures are fairly stated in accordance with the requirements of the Directives and report our opinion to you.
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". We planned and performed our procedures to obtain limited assurance as to whether the Disclosures are fairly stated and comply with the Directives. Our procedures included examining, on a test basis, evidence supporting the amounts and disclosures included in pages 3 to 11. The evidence included that obtained by us during the audit of the financial statements of the Bank for the year ended 31 December 2008, which were prepared in accordance with International Financial Reporting Standards. 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 opinion.
4. The above procedures 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.
5. Based on our work described in this report, nothing has come to our attention that causes us to believe that the Disclosures are not fairly stated in all material respects in accordance with the requirements of Directives.
6. Our report is solely for the purpose as set forth in the first paragraph of this report and for your information, 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 Directives and does not extend to any financial statements of the Company.

*KPMG Limited*  
 KPMG Limited  
 Chartered Accountants

30 April 2009

KPMG Limited, a private  
 company limited by shares,  
 registered in Cyprus  
 under registration number  
 HE 132522 with its registered  
 office at 14, Esperidon Street  
 1087, Nicosia, Cyprus.

### Board Members

N.G. Syrielis	S.G. Solomou	A.I. Skinnouris
A.K. Christofides	M.M. Antonides	G.N. Tziortzis
E.Z. Hadjiocharis	C.V. Vasilou	H.S. Charalambous
P.G. Loizou	P.E. Antonides	C.P. Anayiotis
A.M. Gargorackis	M.J. Helos	I.P. Ghulanos
A.A. Dimasakou	M.P. Michael	M.G. Gregoriadis
D.S. Vakis	P.A. Palanis	H.A. Kikoulis
A.A. Apostolou	G.V. Markides	G.P. Savva
S.A. Lektides	M.A. Pappasota	C.A. Kalis
M.A. Lektidis	K.A. Pappascolau	C.N. Kallis

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**A. SCOPE OF APPLICATION**

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The information below is disclosed in accordance with Directive DI144-2007-05 of the Cyprus Securities and Exchange Commission (“CySEC”) for the Capital Requirements of Investment Firms.

The principal activity of IKOS CIF Limited (“IKOS CIF”; “the Company”) is the provision of financial services within the meaning and terms of the Investment Services and Activities and Regulated Markets Law 2007.

IKOS CIF Limited has been contracted by IKOS Asset Management Limited (“the Client”), a related investment management company incorporated in the Cayman Islands, to provide sub-investment management services.

IKOS CIF Limited does not have any subsidiaries and therefore information presented in this report relate solely to the Company.

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**B. OWN FUNDS**

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The Company's own funds as at 31 December 2008 were €4,015 thousand as presented in the table below.

	<b>€000</b>
<b><i>Original Own Funds (Tier 1)</i></b>	
Share Capital	257
Reserves	5,224
Deductions (for large exposures)	(1,466)
<b>Total Eligible Own Funds</b>	<b>4,015</b>

**Share Capital**

The Company's issued share capital as at 31 December 2008 amounts to €256,500, divided into 256,500 ordinary shares of €1 each.

**Reserves**

The Company's reserves as at 31 December 2008 represent its retained earnings.

**Deductions (for large exposures)**

At 31 December 2008 the Company had a trading receivable from the Client of €2,562 thousand, which was settled in the first 14 days of January 2009. Based on CySEC guidance, the balance exceeding 20% of own funds is deducted from the calculation of own funds (for the purposes of the capital adequacy ratio).

## **C. RISK MANAGEMENT OBJECTIVES AND POLICIES**

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IKOS CIF takes reasonable care to organise and maintain throughout its operation the requisite administrative structure, personnel and technical resources in order to control the company's affairs responsibly and effectively, with adequate risk management systems to determine, evaluate and efficiently manage risks inherent in the provision of its services.

The Company's approach to risk management is built on formal governance processes and relies on individual responsibility and collective oversight. A risk management framework has been implemented, which sets out the governance structure for risk management activities and specifies the respective reporting lines, responsibilities and control mechanisms intended to ensure that risks remain within the company's risk tolerance and applicable laws and regulations.

The Board of Directors ("BOD") of IKOS CIF has ultimate responsibility and performs the critical function of designing, developing and implementing the strategic plan and risk management framework for the organisation. At the same time, the BOD oversees how the Risk Management Function, headed by the Company's Risk Manager, monitors compliance with the Company's risk management policies and procedures.

The Company's risk management approach ensures that IKOS CIF has wide industry knowledge of risk matters, and enables the Company to evaluate and manage, *inter alia*, strategic, operational, credit, liquidity, and market risks.

### **C.1. CREDIT RISK AND COUNTERPARTY RISK**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from related parties.

The Company does not require collateral in respect of amounts receivable from related parties but monitors the ageing profile of its receivables on a continuous basis.

To avoid undue counterparty risk arising when relying on services by third parties, IKOS CIF analyses market developments, and uses third-party service providers that are experienced and reputable.

Where appropriate, IKOS operates a three-bid tender process as part of its service provider selection mechanism, and performs due diligence and credit worthiness reviews on key shortlisted service providers. Enactment, regular monitoring and review of contracts and agreed service level agreements are conducted with industry best practices which are ascertained from independent industry bodies and regulators.

Where applicable as part of the provision of discretionary portfolio management services to its Client, IKOS CIF has a process for setting up trading transactions on behalf of its Client, including the assessment of creditworthiness and the setting of risk limits. Creditworthiness of the Client's trading counterparties is monitored periodically and risk limits are adjusted if required.

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## **C.2. OPERATIONAL RISK**

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external service providers or events, which can lead to financial losses and/or failure of delivery of services by third parties.

We have analysed operational risk into the below categories:

### **C.2.1. Systems, Processes and Controls**

IKOS CIF regularly reviews that its internal systems and controls adhere to best practice and operate efficiently and effectively. Clear segregation of duties exists between investment management and other business functions and operations (with clear reporting lines and different authorisation levels). IKOS ensures that material aspects of its procedures are adequately documented and ongoing training is provided to staff.

An internal audit function, via a risk-based audit plan, provides independent assurance to the Board of Directors on the effectiveness of controls relating to operational and other risks. External independent auditors also assist management and the Board of Directors by providing an assessment of the organisation's internal control system.

### **C.2.2. Trading and Execution**

To prevent trading and execution failures within the Client's trading process, where required as part of the portfolio management services offered to the Client, IKOS CIF has put effective trading and counterparty procedures in place for its Client. These include, among other things, qualified and authorised trader lists, system access controls, best execution, and personal account dealing and conflicts of interests policies.

### **C.2.3. Business Continuity**

IKOS CIF recognises the importance of ensuring continuity of operations in the event of an interruption of services which may result from terrorism, natural disaster or otherwise.

As a result, IKOS CIF has adopted a Business Continuity Plan, which incorporates a Technical Disaster Recovery Plan. IKOS CIF has put in place measures designed to ensure that the provision of portfolio management services to the Client will remain possible in the event of a disaster.

### **C.2.4. IT Security**

IT and all business functions operate in a controlled security environment. All necessary precautions are taken to protect both programmes and data from unwanted intervention. The risks of Systems & Database Unauthorized Access, Data Processing and information back-up retrieval are fully controlled and managed.

### **C.2.5. Legal and Regulatory Compliance**

IKOS CIF continually assesses the applicable laws and regulations that both itself and, where applicable, its Client operate under, and believes that it has adequate and effective systems in place to act on this.

The IKOS employment contract, employee handbook, compliance manual, in-house and external training workshops and international regulatory exams and registrations, collectively provide a professional framework

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for the IKOS workforce, and help to maintain regulatory compliance and the highest standard of client service with integrity.

Compliance oversight and administration is performed by the Company's Compliance Function, headed by the CCO and supported by IKOS' Legal Team.

### **C.3. LIQUIDITY RISK**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The risk is managed through: the BOD seeking to fully understand all aspects of liquidity risk, and respond effectively to changing market conditions; a cash management strategy and a funding strategy that provide effective diversification in terms of counterparty, liquidity and credit exposure; a comprehensive cash movement policy and signatory lists; internal systems and controls; and regular analysis of reports and financial statements.

The Company constantly assesses its immediate working capital requirements and long-term funding requirements, which enable the Company to manage liquidity risk and optimise its cash return on deposits.

The Company's approach to managing liquidity ensures, as far as possible, that it will always have sufficient liquidity to meet its liabilities as they fall due. Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations.

### **C.4. MARKET RISK**

Market risk is the risk that changes in market prices, such as foreign exchange rates interest rates and security prices, may have an effect on the Company's income or the value of its holdings in financial instruments.

Since IKOS CIF does not trade on own account, market risk and associated risks arising from taking market positions are not applicable.

IKOS CIF has developed measures to identify market risk in its line of business and the Client's portfolio, where required as part of the portfolio management services offered to the Client.

#### **C.4.1. 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 Company's income, expenses and operating cash flows are substantially independent of changes in market interest rates as the Company has no significant interest bearing assets or liabilities. Even so, the Company's management monitors the interest rate fluctuations on a continuous basis.

#### **C.4.2. Currency risk**

The Company is exposed to currency risk on purchases and borrowings that are denominated in a currency other than the Euro. The principal currencies giving rise to such risk are primarily the Sterling Pound and the

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United States Dollar. The Company therefore monitors events and changes in the currency markets as part of its risk management process.

**C.4.3. Price risk**

As mentioned above, IKOS CIF does not trade on own account and therefore price risk and associated risks arising from taking market positions are not applicable.

However, IKOS CIF ensures that adequate risk management processes and resources are available and well understood by senior staff and all other staff involved in the provision of portfolio management services to the Client.

Where applicable, and as part of its portfolio and operational risk management procedures that it performs on behalf of the Client, IKOS CIF assesses any exposure to price risk annually or as dictated by events and has implemented appropriate procedures to ensure that material market risks are identified and mitigated where possible.

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**D. CAPITAL REQUIREMENTS**

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The Company follows the Standardised Approach for the calculation of the Pillar I capital requirement for credit risk and foreign exchange risk, and the Basic Indicator Approach for operational risk. The capital requirements at 31 December 2008, analysed by risk area are presented in the table below:

<u>Risk</u>	<b>Minimum Capital Requirements</b>
	<b>€000</b>
Credit Risk	479
Foreign Exchange Risk	109
Operational Risk	2,086
	<b>2,674</b>

**D.1. CAPITAL REQUIREMENT FOR CREDIT RISK**

IKOS CIF has adopted Basel II as of January 2008, in accordance with the provisions of CySEC Directive DI144-2007-05. IKOS CIF has used the Standardised Approach for calculating the level of risk-weighted exposures for credit risk. This requires the classification of exposures into specific asset classes, and proposes the use of specific risk-weights, which vary depending on the asset class and credit rating of the exposure.

The minimum capital requirements of Pillar I are calculated by exposure using a Minimum Capital Adequacy Ratio of 8% as defined by the relevant Directive.

The asset classes and risk-weighted amounts of IKOS CIF, based on the Standardised Approach, are presented in the table below:

<b>Exposures at 31 December 2008</b>	<b>Total exposure value</b>	<b>Risk-weighted amounts</b>	<b>Minimum Capital Requirements</b>
<u>Asset Class</u>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Institutions	2,378	476	38
Other Assets	4,436	4,422	353
Corporates (an amount of €1,466 thousand is deducted from the capital base)	2,562	1,096	88
	<b>9,376</b>	<b>5,994</b>	<b>479</b>

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<b>Average Exposures for 2008</b>	<b>Total exposure value</b>
<b><u>Asset Class</u></b>	<b>€000</b>
Institutions	6,978
Other Assets	4,079
Corporates	1,281
	<b>12,338</b>

<b>Exposures at 31 December 2008 – by geographic area</b>	<b>Cyprus</b>	<b>Cayman</b>	<b>British Virgin Islands</b>	<b>UK</b>	<b>Total exposure value</b>
<b>Asset Class</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Institutions	2,378	-	-	-	2,378
Other Assets	4,417	-	14	5	4,436
Corporates	-	2,562	-	-	2,562
	<b>6,795</b>	<b>2,562</b>	<b>14</b>	<b>5</b>	<b>9,376</b>

### **Credit Quality Steps**

#### *Institutions*

For the credit ratings of institutions, the Company has used the Fitch rating of the Republic of Cyprus (which is AA- as at 31 December 2008), based on the government-based approach recommended by CySEC. We have therefore applied a risk weight of 20% on the Institutions asset class.

#### *Other Assets*

The Other Assets category includes Fixed Assets, VAT & Corporate Tax Receivables, Deferred Tax and Other Debtors. A risk weight of 100% has been applied on other assets, with the exception of cash in hand, for which a risk-weight of 0% has been applied.

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*Corporates*

Receivables from the Client are presented under this category. A risk weight of 100% has been applied on the amount of €1,096 thousand, representing an amount equal to 20% of own funds. The remaining balance of €1,466 thousand, which exceeds the level of 20% of own funds, has been given a risk weight of 0%, but the full amount has been deducted from own funds in accordance with CySEC guidance (see section B).

**D.2. CAPITAL REQUIREMENT FOR FOREIGN EXCHANGE RISK**

Foreign exchange risk is the risk of losses or volatility in the value of balance sheet assets and liabilities arising from foreign exchange movements.

Based on foreign currency short positions which existed on the balance sheet at 31 December 2008, and using the standardised approach, the capital requirement in respect of foreign exchange risk amounts to €109 thousand.

Exposures to currency risk arising from balances denominated in foreign currencies were as follows as at the end of December 2008:

	GBP €000	USD €000
Net Asset/ (Liability) exposure	(1,358)	7

**D.3. CAPITAL REQUIREMENT FOR OPERATIONAL RISK**

IKOS CIF is using the Basic Indicator Approach for calculating the amount of capital required under Pillar 1 of Basel II for Operational Risk. The minimum capital requirements under this approach, and based on the gross-income average of the last three years, amounts to €2,086 thousand.

**D.4. CAPITAL ADEQUACY RATIO**

The Capital Adequacy Ratio of the Company at 31 December 2008 is 12.01%, based on eligible own funds of €4,015 thousand (Section B) and total Capital Requirements of €2,674 thousand.