

# **Otkritie Finance (Cyprus) Limited**

**Disclosures in accordance with the Cyprus Securities  
and Exchange Commission  
Directive DI144-2007-05**

**As at 31 December 2009**

## General Notes

Otkritie Finance (Cyprus) Limited (hereafter referred to as “the Company”) has prepared the following disclosures based on the audited financial statements for the year ended 31 December 2009.

While the information included in the Disclosures is derived from the Financial Statements, the Disclosures do not constitute the Company’s Financial Statements nor do they constitute any form of contemporary or forward looking record or opinion of the Company. They are merely prepared to explain how the Company manages risks, under the requirements of the Cyprus Securities and Exchange Commission (hereafter referred to as “CySEC” or “the Regulator”) and how much capital is assigned to these risks for their management.

The disclosures have been reviewed and approved by the Company’s Board of Directors, and they have been verified by the Company’s external auditor.

The figures disclosed below are to the nearest thousand.

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# I Scope of the Application

## Governing Law

These disclosures have been prepared in accordance with the Capital Requirements of Investment Firms Directive DI144-2007-05 (“the Directive”) of CySEC, Chapter 7 (Disclosure and Market Discipline of Part C, paragraphs 34 – 38 and Annex XII, Part 2).

## Policy Statement

Following a careful consideration of the specific characteristics of the Company, such as the scale, size and complexity of its operations, type of financial instruments traded, and financial markets in which trading activity is carried out, the Company’s Board of Directors has decided that some or all of the Disclosures need not be published more frequently than annually. It has also been decided that the Disclosures will be published only on the Company’s website.

## Background

The Company was granted a licence from the CySEC to operate as a Cyprus Investment Firm (CIF) in August 2006, and it has been trading under licence number 069/06 ever since.

Under its licence the Company is entitled to provide the following investment and ancillary services:

- Reception and transmission of orders;
- Execution of such orders on behalf of clients;
- Portfolio management;
- Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management;
- Granting credits or loans to an investor to allow him/her 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.

The Company is a wholly owned subsidiary of Otkritie Financial Corporation Limited, in Russia. The Company does not have any subsidiaries thus it does not need to prepare consolidated accounts for either accounting purposes or for regulatory purposes.

According to the Directive the Company needs to disclose whether “it has any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries”. Since the Company does not have any subsidiaries the above requirement is not applicable.

It should also be noted that the Company does not carry out any securitisations.

## II Capital Base

### Regulatory Capital

The Company's capital base comprises only of Original Own Funds (Tier 1 Capital), namely Share Capital and Reserves. It should be noted that the Company's Share Capital refers to Ordinary shares while Reserves include only Retained Earnings (Accumulated Retained Profits and Audited Profit / Loss for the year).

The table below shows the Company's capital base as at 31 December 2009.

	<b>Year ended 31/12/2009</b>
<b>Original Own Funds</b>	
Share Capital	11.304
Reserves	5.903
<b>Total Original Own Funds</b>	<b>17.206</b>
Additional Own Funds	-
<b>Total Eligible Own Funds</b>	<b>17.206</b>

Figures are represented in USD '000

### III Risk Management

The responsibility for the overall framework of risk governance and management lies with the Board of Directors. The Management recognises that risk is embedded in all the Company's activities and for this reason it recognises the need to continually identify, assess, monitor and control each type of risk.

More specifically the responsibilities of the Board of Directors and Senior Management with regards to managing risks are to:

- Assess on a continuous basis the effectiveness of the policies, arrangements and procedures in place;
- Review the report received from the Risk Management Department and take action whenever necessary;
- Decide on the Company's risk bearing capacity and risk strategy;
- Ensure that the Company has sufficient capital and risk reserves to cover its needs.

The Company's Board of Directors has also established a Risk Management Committee which is dedicated primarily to managing credit risk resulting from the service of granting of credits or loans to investors to allow them to carry out transactions in one or more financial instruments. Part of the responsibilities of the Risk Management Committee is the setting, approving and regular updating of credit limits, as well as the monitoring of credit risk management procedures.

In addition to the Risk Management Committee, the Company has also established a Risk Management Department whose primary responsibility is to oversee the risk management of the Company. The main responsibilities of the Risk Management Department are to:

- 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 its risk management policies and procedures;
- Evaluate customer financial data, especially where the Company grants the customers with a credit or loan;
- Manage risks associated with transactions performed on behalf of clients;
- Monitor risks in respect of the investments undertaken, both on aggregate and per customer level.

The Risk Management Department is also responsible for preparing on a frequent basis and at least annually, a report for the Board of Directors. Based on the risk management issues identified, the Board of Directors is responsible for taking mitigation actions wherever necessary.

#### **Internal Capital Adequacy Assessment Process (ICAAP)**

The ICAAP will enable the Company to identify the requirements for any additional capital over and above the capital allocated under Pillar 1. The Company will be preparing its ICAAP document during the course of the year.

## IV Capital Requirements

According to the Directive, the Company's management has decided that the most appropriate methods for measuring the capital requirement under Pillar 1 are:

- Credit risk using the Standardised Approach;
- Market risk using the Standardised Approach;
- Operational risk using the Basic Indicator Approach.

As at 31 December 2009 the Company's capital requirements for the three categories of Pillar 1 risks are as follows:

<b>Risk Category</b>	<b>Pillar 1 Capital Requirement</b>
Credit and Counterparty Credit Risk	920
Market Risk*	757
Operational Risk	845
<b>Total Capital Requirements</b>	<b>2.522</b>

\*The capital requirement with regards to market risk relates to the risk arising from foreign exchange positions. Figures are represented in USD '000.

## V Credit Risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the statement of financial position date.

It should be noted that the Company does not have significant credit risk exposure. However, as specified above, the management of credit risk is important in the overall risk management framework, and as such the Board of Directors has established a Risk Management Committee.

The mitigation of credit risk is achieved through the establishment of credit limits and by securing collateral for margin lending transactions. The following table outlines the Company's exposures prior to credit risk mitigation for the various asset classes, as identified by the Regulator.

Asset Class	Value of Exposures before Credit Risk Mitigation	Provisions / Impairments	Average Value of Exposures
Institutions	13.132	-	18.880
Corporates	3.925	-	3.925*
Other	322	-	909
<b>Total Exposures</b>	<b>17.378</b>	<b>-</b>	<b>23.713</b>

\*It is noted that exposures to corporates arose at the end of the year, as a result of loans receivable from related parties. Thus the average value is equal to the value of the exposure before credit risk mitigation as at 31 December 2009. Figures are represented in USD '000.

It should be noted that the Company does not have any off-balance sheet items as described in the Directive and thus the exposure values specified above relate only to balance sheet items.

### Exposures by Geographical Locations

In the following table the Company's exposures are represented geographically, indicating specifically the most material exposures broken down by geographical location.

Asset Class	Cyprus	Russia	Germany	UK	USA	British Virgin Islands
Institutions	6.556	4.195	65	1.600	719	-
Corporates	914	-	-	-	-	3.011
Other	318	-	-	-	-	-
<b>Total Exposures</b>	<b>7.788</b>	<b>4.195</b>	<b>65</b>	<b>1.600</b>	<b>719</b>	<b>3.011</b>

Figures are represented in USD '000

### Exposures by Industry or Counterparty type

The Company's exposures are concentrated in the Financial Services industry. The Company does not have any significant exposures in other industries, thus the Company has not performed a classification of exposures by counterparty type or industry.

## Exposures by residual maturity

As the Company does not have significant long term exposures, it has not performed a classification of exposures by residual maturity.

## Value of Exposures

The Company's exposures are valued according to the requirements of the International Financial Reporting Standards ("IFRSs"). Based on the requirements of the IFRSs the Company's exposures will be measured either at amortised cost or at fair value.

Specifically:

- Trade Receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.
- Investments in either equity or debt are classified in one of the following three categories:
  - Financial assets at fair value through profit and loss;
  - Held-to-maturity investments;
  - Available-for-sale financial instruments.

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

It should be noted that as at 31 December 2009 the Company does not have any assets which are classified under investments. It should also be noted that the Company does not have any value adjustments.

## Past due and Impaired

The Company assesses at each financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the security is impaired.

As far as past due are concerned, the Company follows the IFRS 7 definition which states that "a financial asset is past due when a counterparty has failed to make a payment when contractually due". During the year, the Company did not have any investments which were impaired nor did it have any items that were classified as past due.

## Provisions

At each financial position date the Company assesses the possibility of having to calculate provisions against its outstanding amounts. Provisions arise when the Company has a present obligation as a result of a past event and it is probable that an outflow will be required to settle the obligation, and a reliable estimate of the amount can be made. During the year the Company did not have any provisions.

### **Nominated External Credit Assessment Institutions (ECAIs) for the application of the Standardised Approach**

According to the requirements of the Directive, under the Standardised Approach, the Company can choose one of the three nominated ECAIs (Standard and Poor's Rating Services, Fitch Ratings and Moody's Investors Service) for assigning risk weights to its exposures.

The Company uses Fitch Ratings for rating its entire portfolio, and is in compliance with the requirements of the Directive. Where there is no credit rating from the specific rating agency, the Company follows the approach of seeking credit ratings from Standard and Poor's Rating Services and then from Moody's Investors Service if necessary.

Because the Company's portfolio is not complex, in that its main exposures are to Banking Institutions, the Company does not use any Credit Risk Mitigation techniques.

The table below shows the exposures for each Credit Quality Step before Credit Risk Mitigation.

	<b>Credit Quality Step</b>					
<b>Asset Class</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
Institutions	7.337	-	5.795	-	-	-
Corporates	-	-	3.925	-	-	-

Figures are represented in USD '000

The Company's "Other" exposures are risk weighted at 0% and 100%. However they cannot be classified according to the credit ratings as they represent cash exposures, trade receivables, prepayments and fixed assets.

## VI Market Risk

Market risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices. The Company does not have substantial market risk, apart from foreign exchange risk and liquidity risk, since it does not carry out any proprietary trading activity.

None the less the Company's Board of Directors, following the recommendations of the Risk Management Department, have set up prudent market risk policies and procedures to minimise their market risk, including limits.

As specified in section IV (Capital Requirements), the Company calculates the minimum capital requirement for market risk using the Standardised Approach.

### Interest rate risk

Interest rate risk is defined as the risk that the value of financial instruments will fluctuate due to changes in market interest rates. As at 31 December 2009 the Company had fixed rate financial instruments, comprising mainly of loans receivable from related parties, which were susceptible to interest rate risk.

In order to estimate the impact of interest rate movements on the economic value of equity, the Company applied a standard shock of 200 basis points (parallel movement of the yield curve). The impact on the economic value of equity has been estimated to be \$57,000.

### 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 considers liquidity risk to be a material risk since it can affect the Company's position as a going concern. Monitoring of liquidity risk is an integral part of the day-to-day risk management. Specifically, in order for the Company to achieve its objective of minimising liquidity risk, the Risk Management Committee ensures that:

- Sufficient cash deposits and highly liquid assets are maintained;
- Adequate amount of committed credit facilities are maintained and monitored on a continuous basis;
- Daily reconciliations of cash balances and payments are performed.

In addition to the above, the Company has also introduced liquidity limits which are automatically monitored using IT systems.

### Foreign Exchange Risk

Foreign exchange risk is also an important aspect of market risk management. Foreign exchange risk is defined as the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company takes all reasonable steps to ensure that its capital requirements with regards to foreign exchange risk are not excessive so that they can cause the Company to be in any financial impediment.

**Exposures in equities not included in the trading book**

During the year 2009 the Company did not purchase any equities which qualify under this category such as equity in investments, equity in associates or investments that would be classified as available for sale.

## VII Operational Risk

The Company recognises operational risk as the risk deriving from the deficiencies relating to the Company's information technology and control systems, as well as the risk of human error and natural disasters.

The Company's policy with regards to the management of operational risk is centred on promoting a culture among employees where operational risk is identified and monitored through reporting of operational risks, through training and continuous evaluation, as well as monitoring and upgrading of the Company's systems.

Based on the Company's operations the Board of Directors has decided that the Basic Indicator Approach ("BIA") is the most appropriate method to be used to measure the operational risk capital requirement. According to the BIA, the operational risk capital requirement is calculated by applying a rate of 15% on the average sum of the net incomes of the last three twelve-month observations, at the end of the financial year.

In the table below the capital requirement for operational risk as at 31 December 2009 is presented.

<b>Operational Risk</b>	
Commissions receivable	10.032
Commissions payable	(5.904)
Net gain on trading in financial instruments	1.214
Other operating income	251
Other income	40
<b>Total</b>	<b>5.633</b>
<b>Capital Requirement</b>	<b>845</b>

Figures are represented in USD '000