Otkritie Capital Cyprus Limited

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

As of 31 December 2014

General Notes

Otkritie Capital 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 2014.

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trading activity is carried out, the Company’s Board of Directors has decided that some or all of the Disclosures need not be published more frequently than annually.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;
- Dealing on own account;
- 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 Holding Limited, Russia. The Company does not have any material investments in 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, Share Premium 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 2014.

	Year ended 31/12/2014
Original Own Funds	
Paid up Capital	11.660
Share premium	19.187
Reserves	15.648
Total Original Own Funds	**46.495**
Additional Own Funds	-
Total Eligible Own Funds	**46.495**

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 is performing its ICAAP document during the course of the year as a part of decision making process.

Risk Appetite

The Board articulates the risk appetite for its activities and stipulates it in risk appetite statement. The Company defines Risk Appetite as representing the amount and type of risk it is prepared to accept, tolerate or be exposed to at any point in time in the context of its business model and in the course of achieving its business objectives.
Given the nature of its business model, the Company rather actively seeks either credit or market risk as the sources of increasing revenues or achieving its strategic objectives. There are risk policies and procedures, risk operating manuals and risk limits in place in order to make those risks manageable for the purpose of gaining on market uncertainties, increase the value of the company and form the sophisticated risk culture. As part of the annual ordinary business planning process, the Company's Risk Appetite statement is communicated by the Company's Board to its Senior Management, Investment management Committee and Risk Management Committee. The Senior Management acts as the Company's Governing Body. The Company incorporates measurements of earnings, capital adequacy, reputation and regulatory compliance against plan targets in its monthly management reporting packs which contain the appropriate KPIs/KRIs.

The Firm has assessed its overall risk appetite also taking into account its systems and controls, policies and procedures that allow us to mitigate most risks before they crystallize. The Firm has however provided for an additional capital buffer under Pillar 2 in order to cover any additional risks.

This assessment is based on:

- The historical track record of the company's business which has been consistently profitable over the last few years.
- The Firm deals with well-established and reliable counterparties via the FSA-regulated Group entity.
- The Firm seeks for profit in market risk exposure in trading books.
- The Firm bears credit exposure in non-trading book.
- The Trading Book activities are specifically defined in Trading Book policy statement.
- The Firm has limited its principal trading facility up to the level comfortable for Pillar I requirements.
- The Firm's client base consists of retail clients (discretionary investment management services only); for broker&dealer activities the client base is limited to professional clients and eligible counterparties only classified in accordance with MiFID.
- The Firm mainly focuses its business activities to various financial instruments traded in Russian financial markets or derived from/ based on those.

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 2014 the Company's capital requirements for the three categories of Pillar 1 risks are as follows:

Risk Category	Pillar 1 Capital Requirement
Credit and Counterparty Credit Risk	2 272
Market Risk	1 166
Operational Risk	645
Other additional requirements	0
Total Capital Requirements	**4 083**

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 has a credit risk exposure to UK-based FCA-regulated sister company and to Russian top-rated credit institution. 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 and repurchase 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	Value of Exposures after Credit Risk Mitigation
Institutions	45 041	-	45 041
Corporates	767	-	767
Public Sector Entities	119	-	119
Other	676	-	676
Total Exposures	**46 603**	**-**	**46 603**

Figures are represented in USD '000.

The Company held cash and cash equivalent amounting USD 94 375 534 on behalf of its clients and also managed assets of USD 340 202 726 comprising securities and promissory notes.

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	UK	USA	Other non-EU jurisdictions
Institutions	59	22 118	22 860	4	-
Corporates	-	-	-	-	767
Other	676	-	-	-	-
Public Sector Entities	119	-	-	-	-
Total Exposures	**854**	**22 118**	**22 860**	**4**	**767**

Figures are represented in USD '000.

For the calculation of the country risk additional capital requirement 8% capital charge was applied on the risk weighted amount of exposures. The geographical concentration was assessed using the concept of Herfindahl-Hirschman Index. The calculated HHI as of Dec 31, 2014 is 0.4666. Hence the firm considers that it should apply add–on of 20% of capital requirements for credit risk under Pillar 1, the result is $0.454M.

Exposures by Industry or Counterparty type

The Company's counterparty 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

The Company has a fixed income instrument in its book matured in 2019. This particular instrument mostly contributes to long term exposure value. This is a very liquid instrument with external credit rating not less than BBB.

Term	On demand and up to 1W	Up to 3M	Up to 6M	Up to 12M	More than 12M
Exposure value, $000	38 789	0	0	923	6 890

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 2014 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 reporting 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 credit issuer ratings of its entire portfolio, and is in compliance with the requirements of the Directive. Where 3 different credit ratings are available the company chooses 2 values associated with the better credit quality steps and then the worst among these 2; where only 2 credit ratings are available the company uses the 1 associated with the lower credit quality step; where 1 credit rating is available the company applies credit quality step associated with such value.

The Company’s activities are not complex and from counterparty risk exposure point of view it is mainly exposed to financial institutions. The Company uses a number of Credit Risk Mitigation techniques known as Financial Collateral Comprehensive Method – Master Netting Agreement (MNA) and unfunded credit protection - guarantee. As for FCCM the selected liquidation period is 5 days as per requirement of the Capital Requirements Directive. In case there is a currency mismatch between exposure leg and collateral leg of repo transaction, the open currency position is calculated for currencies other than MNA currency.

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

$000	**Credit Quality Step**						
Asset Class	**1**	**2**	**3**	**4**	**5**	**6**	**NR**
Institutions	22,864	-	22,118	-	-	59	-
Corporates	-	-	-	-	-	-	767
Other	-	-	-	-	-	-	676
Public Sector Entities	-	-	-	-	-	119	-

Figures are represented in USD '000

The Company’s “Other” exposures are risk weighted at 100%.

VI Market Risk

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

In 2011 the board of the company changed its attitude to the market risk and decided to seek profit in prop trading activities. The main chosen instrument was equities and equity-based depositary receipts.
In 2012 the shareholders increased the capital of the firm. Due to market volatility the capital was primarily invested into fixed income securities portfolio in order to diversify the market risk exposure of the firm
Due to increased volatility at the end of 2014 the company liquidated all positions in trading book.

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 on the size of exposure, the limit for risk/return ratios, VaR limits.

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

Under ICAAP the total internal capital for market risk is calculated using VaR measurement with delta-gamma approach under normality assumption. Risk factor volatilities and correlations are calculated with EWMA approach. The parameter "holding period" was chosen as 10 days in accordance with average holding period of the instruments in trading portfolio. The confidence level is 99%.

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 2014 the Company has fixed rate financial instruments, comprising of fixed income securities in non-trading book.

Instrument	Credit Risk requirement under Pillar1, $000	VaR – Internal Capital requirement, $000
FI Securities	550	1 145

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 is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Russian Rubles.

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.

The table below shows the currencies breakdown among the balance sheet items at the end of 2014.

$000	USD	EUR	RUR	GBP	CAD	Other
Fixed Assets	-	12	-	-	-	-
Debtors	654	171	0	0	0	0
Receivables	235	0	0	0	0	0
Financial Assets	0	0	6,879	0	0	0
Loans	730	0	0	0	0	0
Cash at banks and in hand	15,204	55	42	5	0	0
Account with brokers	17,050	108	5,918	12,112	1	435
Total Assets	**33,873**	**346**	**12,839**	**12,117**	**1**	**435**
Creditors	21	86	-	-	-	-
Payables	-	-	-	-	-	-
Account with brokers	335	1,190	10,811	0	653	20
Capital	46,496	-	-	-	-	-
Total Liabilities and equity	**46,852**	**1,276**	**10,811**	**0**	**653**	**20**

For the estimation of foreign exchange risk capital requirements the Company uses the Standardised Approach for Pillar 1 and compares 8% requirements of total open currency position with overall VaR of FX instruments in the Firm's balance sheet

Exposures in equities not included in the trading book

During the year 2014 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.

Large exposures in trading book

As of December 31st, 2014 the Company had no positions exceeding the prudential limit set by the Capital Requirements Directive.

VII 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.

The company is mainly exposed to liquidity risk in case of funding its positions and its clients' trading activity via repo or securities lending borrowing operations, however the company did not provide these services.
The risk management defines the stress period at 2 weeks with consequent 3 months for recovery period.
As there were no sources for liquidity risk the firm allocate zero capital requirements for that type of risk.

VIII 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 2014 is presented.

	Years		
Income	**2014**	**2013**	**2012**
Commissions receivable	1 019	819	748
Commissions payable	(509)	(741)	(1 552)
Net (loss/gain on trading in financial instruments	827	2 612	722
Other operating income	6 093	2 701	1 611
Other income	33		
Total	7 463	5 391	1 528
Average Yearly Income		**4 794**	
Capital Requirement @ 15%		**719**	

Figures are represented in USD '000

IX INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

Due to the relative simplicity of the business model the risk profile of the company is not complicated. However the ICAAP remains one of the important tools of the Board in its governance framework. The company performed internal capital assessment and the indicative result of assessment as of Dec 31, 2014 is below.

Risk Type	Regulatory Capital	Pillar 2 Add-On	Internal Capital
	US$ '000	US$ '000	US$ '000
Credit risk total	*2,272*	*1,580*	*3,852*
• Credit risk	2,272	0	2,272
• Country risk	0	1,125	1,125
• LE excess in TB	*0*	0	0
• Concentration risk		454	454
Market risk	*1,166*	*758*	*1,924*
• Position risk	0	0	0
• FX risk	1,166	758	1,924
Operational risk	*719*	*1,438*	*2,157*
Interest rate risk in the banking book	*-*	*1,145*	*1,145*
Liquidity risk	*-*	*0*	*0*
Total capital requirement	**4,157**	**4,920**	**9,077**
Available capital	46,496		46,496
Capital Planning Element			**25,875**
Internal Buffer			11,544
Capital Adequacy Ratio	**89.48%**		**40.98%**

Eventually the capital resources of the company are sufficient to the extent of coverage risks under Pillar I and under the process of the assessing of internal capital.

X REMUNERATION POLICY

Disclosure of information regarding management and staff annual remuneration. The company has quite clear and straightforward scheme of remuneration for the stuff in the format of monthly fixed salary determined in the employment agreement according to local market conditions. Relevant salaries are regularly of examined by internal/external auditors.