Otkritie Capital Cyprus Limited

Disclosures in accordance with the Cyprus Securities and Exchange Commission Directive DI144-2014-14

As of 31 December 2015

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 2015.

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 DI144-2014-14 (“the Directive”) of CySEC paragraph 32(i) of Section 4 of Part II of chapter 1.

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trading activity is carried out, the Company’s Board of Directors has decided that some or all of the Disclosures need not be published more frequently than annually.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 resources base comprises only of Common Equity 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 2015.

	Year ended 31/12/2015
Common Equity Tier 1 Capital Resources	
Paid up Capital	11.660
Share premium	19.187
Reserves	6.815
Total Original Own Funds	**37.662**
Additional Own Funds	-
Total Eligible Own Funds	**37.662**

Figures are represented in USD '000

As the company has no other capital instruments, there are no Additional Tier 1 and Tier 2 instruments.
The main features of capital instruments are listed in the table below

Issuer	Otkritie Capital Cyprus Limited
Unique identifier	-
Governing law(s) of the instrument	Cyprus Law
Transitional CRR rules	Common Equity Tier 1
Post-transitional CRR rules	Common Equity Tier 1
Instrument type	Registered Shares
Accounting classification	Paid-in capital
Perpetual or dated	Perpetual
Issuer call option	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
Non-cumulative or cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible
Write-down features	No
Non-compliant transitioned features	No

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 August 2015 the Company has established a Risk Committee comprising the independent Directors of the Company.

In addition to the Risk Management Committee and Risk 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.

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.

Escalation route and management information

Any issues (breaches, violations, excessive tolerances etc.) are escalated by Risk Management Department to the Risk Management Committee. Consequently the case where RMC deems it is necessary the particular case may be escalated to the Board of Directors.

The Risk Management Department is also responsible for preparing on a frequent basis and at least annually, a risk management report for the Board of Directors. Based on the risk issues identified, the Board of Directors is accountable for taking ultimate risk actions (accepted/not or subject to mitigation/not) wherever necessary.

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 2015 the Company's capital requirements for the three categories of Pillar 1 risks are as follows:

Risk Category	Pillar 1 Capital requirements
Credit and Counterparty Credit Risk	2 499
Market Risk	4 423
Operational Risk	853
Other additional requirements	9 438
Total Capital Requirements	**17 213**

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	134 071	-	134071
Corporates	1468	-	1468
Public Sector Entities	107	-	107
Other	165	-	165
Total Exposures	**135** 811	**-**	**135** 811

Figures are represented in USD '000.

The Company held cash and cash equivalent amounting USD 18 360 944 on behalf of its clients and also managed assets of USD 431 638 803 comprising securities.

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	229	9 579	121532	2730	1
Corporates		641			827
Other	165				
Public Sector Entities	107				
Total Exposures	501	10220	121532	2730	828

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, 2015 is 0.6519. Hence the firm considers that it should apply add–on of 60% of capital requirements for credit risk, the result is $1.499M

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 had a fixed income instrument in its book matured in 2019. This particular instrument mostly contributed to long term exposure value. This is a very liquid instrument with external credit rating not less than BBB. It was liquidated in the beginning of 2016.

Term	On demand and up to 1W	Up to 3M	Up to 6M	Up to 12M	More than 12M
Exposure value, $000	127 379	0	0	827	7 605

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 2015 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**
Institutions	124,262	-	7,605	-	-	225
Corporates	-	-	-	46 502	-	-
Other	-	-	-	165	-	-
Public Sector Entities	-	-	-	-	-	107

Figures are represented in USD ’000.

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

$000	**Credit Quality Step**					
Asset Class	**1**	**2**	**3**	**4**	**5**	**6**
Institutions	124,262	-	7,605	-	-	225
Corporates	-	-	-	3 442	-	-
Other	-	-	-	165	-	-
Public Sector Entities	-	-	-	-	-	107

Figures are represented in USD '000.

The Company's "Other" exposures are risk weighted at 100%.

Based on the business model the company's main hedging objective for its OTC derivative business is to require collateral from clients and offset the risk via contracts with central counterparties at various exchanges. The company always requires some add-on to calculated collateral amount based on the internal credit risk assessment of the client. The management of the company also intends to use these excesses as an interim cushion should a particular central counterparty or a clearing member require additional amount in case of credit rating downgrade of the company itself. This requirement will be immediately channelled to the client and the above mentioned buffer will be used to mitigate the settlement risk of margin calls.

The company employs a very conservative approach for treatment of collateral as eligible – it accepts only cash collateral with the minimum volatility relative to the reporting currency of the company. The company also has incorporated the holistic legal framework with clients based on the products it is offering to the clients – this includes – the standard agreement for brokerage activities as well as widely recognised master agreements (GMRA, GMSLA, ISDA etc.) with mandatory netting clauses (contractual and close-out). Where necessary the company has also signed the Master Netting Agreements. Based on that the company assesses the exposures and whether these are subject to relevant netting vs pledged collateral. The standard approach for the company is to have these netting rights as mandatory ones in its relationships with the clients. This allows company to apply netting rules in calculating the risk exposure amounts.

In accordance with master agreements the company accepts only cash collateral. The company does not accept guarantees or credit risk derivatives as eligible credit risk mitigation factors.

The concertation is monitored be the means of either additional credit risk capital requirements under ICAAP. The company accepts concentration credit risk where it is exposed to central counterparties to the recognised exchanges.

As the only item in the non-trading book was liquidated shortly after the reporting date the management considers there is no need in disclosing the credit risk transfer process in this document.

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.

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 2015.

$000	USD	EUR	RUR	GBP	CAD	Other
Fixed Assets	-	36	-	-	-	-
Debtors	82	138	61	-	-	-
Receivables	8,863	-	181	-	-	-
Financial Assets	4,655	-	7,605	-	-	-
Loans	791	-	-	-	-	-
Cash at banks and in hand	1,992	221	5	4	-	2
Account with brokers	79,856	-	-	11,551	-	369
Total Assets	96,239	395	7,852	11,555	-	371
Creditors	130	344	5	-	-	-
Payables	-	-	-	-	-	-
Financial Assets	5,131	-	-	-	-	-
Due to brokers and clients	67,000	989	4,573	-	560	19
Capital	26 002	11 661	-	-	-	-
Total Liabilities and equity	98 263	12 994	4,578	-	560	19

Figures are represented in USD '000.

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 2015 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, 2015 the Company had the exposure limit exceeding the prudential limit set by the Capital Requirements Directive within trading book. The additional capital requirement was calculated and capital was consequently charged.

As of 31 December 2015 the Company has used the following stressed factors for calcualtuion of internal capital for market risk

- Increased volatility up to 35%
- 350bp parallel yield shift for USD rates
- 500bp parallel yield shift for USD rates
- 10 day VaR amount with 99% confidence level

This is a part of ICAAP. However there is no mandatory requirement to disclose ICAAP the management deems it is important to disclose that the total internal capital requirements for all positions subject to market risk does not exceed 1/3 of capital resources as in the table below.

Internal Capital requirement, $000
10 961

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 2015 is presented.

Operational Risk Exposure Amount under Pillar 1	Capital Requirement @ 15%
10,663	**853**

Income	**Years** 2015	2014	2013
Commissions receivable	1,242	1,019	819
Commissions payable	(1,268)	(509)	(741)
Net gain on trading in financial instruments	(9,580)	827	2,612
Other operating income	1,917	6,093	2,701
Other income		33	
Total	(7,689)	7463	5391
Average Yearly Income			**6427**
Capital Requirement @ 15%			**964**

Figures are represented in USD '000

The company employs the quite simple business model, but nevertheless the management admits the importance of the proper operational risk systems and controls. The business continuity policies in terms of IT and a number of other activities (including but not limited to client relationship management, clients orders execution, trading, finance, risk management, back-office operations) are incorporated within the company and aligned within Otkritie Capital group of companies.

The company has also established a sophisticated process of collecting of operational risk data and operational KRIs and KPIs and further processing of this data in terms of either additional mitigations or risk transferring by means of outsourcing or insurance.

During the ICAAP the management of the company has also assigned additional capital for operational risk with the amount stipulated in the next section.

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, 2015 is below.

Risk Type	Risk Weighted Exposure under Pillar 1	Additional Exposure as a result of ICAAP	Total Exposure	Total Internal Capital Requirement
	US$ '000	**US$ '000**	**US$ '000**	**US$ '000**
Credit risk total	149,218	22,000	171,218	13,697
Market risk	55,284	81,725	137,009	10,961
Operational risk	10,663	13,863	24,526	1,962
Liquidity risk	0	0	0	0
Total risk exposure	215,165	117,587	332,752	
Total capital requirement	17,213			26,620
Available capital	37,663			37,663
Capital Planning Element				4,587
Internal Buffer				6,455
Including specific countercyclical buffer				3 227
Capital Adequacy Ratio	**17.50%**			**11.32%**

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.

The management considers the half of its internal buffer as a sufficient amount for a specific countercyclical buffer.

X Remuneration Policy

In terms of disclosure of information regarding management and staff annual remuneration the company has developed quite clear and straightforward Remuneration Policy (the "Policy") which reflects the objectives of the Company for good corporate governance of the financial compensation of the Company's employees, as well as the sustained and long-term value creation for the Company's shareholders and effective risk management.

The purpose of the Policy is to ensure that:

- The Firm is able to attract, develop and retain high-performing and motivated employees in a competitive, international market;
- Employees are offered a competitive remuneration package;
- Employees feel encouraged to create sustainable results and do not expose the Company to excessive risk.
- Corporate values and culture are supported;
- Leadership, accountability, teamwork and innovation are reinforced;
- The contribution and performance of the businesses, teams and individuals are aligned.

The Policy focuses on ensuring sound and effective risk management through practices and procedures that are consistent with and promote:

- Setting goals and communicating these goals to employees;
- Including both financial and non-financial goals in performance and result assessments;
- Making fixed salaries the main remuneration component.

The following principles have been adopted by the Company in relation to establishing the Policy:

- Simplicity
- Fairness
- Transparency
- Risk tolerance
- Alignment with values and long-term interests

Responsibilities of the Board of Directors

The Board has responsibility for providing recommendations on employee remuneration.

- The Board of Directors adopts and periodically reviews the general principles of the remuneration policy and is responsible for its implementation.
- The remuneration of the senior officers in the risk management and compliance functions is directly overseen by the Board of Directors in its supervisory function.
- The Board of Directors assures that the staff engaged in control functions is independent from the business units they oversee, have appropriate authority, and are remunerated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control.
- The Board of Directors assures that the assessment of the performance is set in a multi-year framework in order to ensure that the assessment process is based on

longer-term performance and that the actual payment of performance-based components of remuneration is spread over a period which takes account of the underlying business cycle of the Company and its business risks.

- The Board of Directors controls that the total fixed and variable remuneration does not limit the ability of the Company to strengthen its capital base and the guaranteed variable remuneration is exceptional and occurs only when hiring new staff and is limited to the first year of employment.

The Board acts independently when approving the Policy and procedures by considering the following factors:

- Short-term objectives and long-term strategy of the Company;
- Effectiveness of the Risk management and potential loss mitigation
- The Firm's structure and financial situation;
- Future plans and prospects of the Company;
- Shareholders' expectations;
- Total remuneration package;
- Approach in remunerating employees.

The Policy shall be reviewed and amended if necessary by the Board of Directors on a regular basis, at least once a year.

The Policy becomes effective upon approval by the Board of Directors.

The Company's Board of Directors may deviate from the Policy in individual cases if justified by extraordinary circumstances.

Remuneration Committee

As the Company is a significant Cyprus Investment Firm (CIF), it has set up a Remuneration Committee, whose members are the Non-Executive Directors. The Remuneration Committee is constituted in such a way as to enable it to exercise competent and independent judgment on remuneration policies and practices and the incentives created for managing risk, capital and liquidity. As at 31 December 2015, the Remuneration Committee comprised of two Non-Executive Directors.

- The remuneration committee is responsible for the preparation of decisions regarding fixed and variable remuneration, including those which have implications for the risk and risk management of the Company and which are subject to the approval by the Board of Directors.
- When preparing such decisions, the Remuneration Committee shall take into account the long-term interests of shareholders, investors and other stakeholders in the Company, the Company's financial condition and future prospects as well as the public interest.

Internal Audit Responsibilities

The internal audit reviews and evaluates, at least on an annual basis, the appropriateness, effectiveness and adequacy of the Policy as well as practices, measures, procedures and control mechanisms applied for its implementation

Appraisal process. Measurement of performance

Otkritie Group has generated and implemented performance review for the employees of the companies of Otkritie Group.
On an annual basis (in January - February, every year) all the employees complete an assessment form, where they emphasise their achievements and sets plans for the coming year.
The employees identify their achievements and successes, areas for improvement, highlight any barriers for improvement.
On the basis of the completed assessment, the responsible manager analyses the employees work during the year, provides the feedback and discusses the strength/weaknesses, objectives, challenges, areas for development, job satisfaction. The Responsible Manager provides the employee with a score that indicates the satisfaction with the work of the employee during the year.

This score may influence the fixed and variable compensation of the employee.

Various remuneration components are combined to ensure an appropriate and balanced remuneration package that reflects the business or support unit, the employee's corporate rank within the Firm and professional activity as well as market practice.
The six main remuneration components are:

- fixed remuneration (the salary) determined on the basis of the role of the individual employee, including responsibility and job complexity, performance and local market conditions.
- performance-based variable remuneration (the bonus). All bonuses are discretionary, i.e. there is the possibility that no bonus will be awarded. Bonuses are awarded in a manner that promotes sound risk management and does not induce excessive risk-taking.
- pension scheme (not applied yet)
- other benefits which may be changed or withdrawn or added to at the discretion of the Board. As of the 31 December 2015 these benefits include medical insurance only.
- severance payment is awarded on the basis of individual employment contract and local market practice
- special remuneration arrangements including sign-on, redundancy or termination payments not set out in the employment contracts must be approved by the Board.

Aggregate Information on Remuneration

- All remuneration was paid in cash.
- There was no deferred remuneration during the financial year.
- There was no sign-on or severance payment during the financial year.

The table below provides aggregate quantitative information on remuneration, broken down by senior management and other members of staff whose actions have a material impact on the risk profile of the Company.

	# of personnel	Fixed	Variable	Total
Senior Management	**5**	**$ 133 425**	**-**	**$ 133 425**
Members of staff whose actions have a material impact on the risk profile of the institution	**6**	**$ 116 399**	**$ 10 000**	**$ 126 399**
Total	**11**	**$ 249 824**	**$ 10 000**	**$ 259 824**

Governance Arrangements

<u>The Recruitment Policy for the selection of the members of management body (BoD)</u>

The Recruitment Policy and Procedures for the selection of the members of management body (BoD) are aimed for the assessment of both technical capability and competency skills of a candidate and their correspondence to Company's requirements. Candidates must have skills and/or knowledge to enhance the collective knowledge of the BoD and must be able to commit the necessary time and effort to fulfil their responsibilities. Recruitment as a member of the BoD is subject to the approval by the BoD and by the AGM.
Prior to the appointment, the Company must comply with the relevant fitness and probity requirements and obtain the approval of the CySEC.

<u>Number of Directorships</u>

The table below provides the number of directorships held by each Director of the Company including the directorship in OCCL.

NAME	Number of Directorships
Nikolay Katorzhnov	2*
Alexander Kupriyanov	2*
Constantinos Shiatis	1
Pavlina Tsiridou**	More than 10
Veeny Hadjimilti	1

* Within the OTKRITIE Group or related parties.
**Pavlina Tsiridou has resigned from the Board of Directors on the 1st of December 2015.

<u>Policy on Diversity with regard for the selection of the members of management body (BoD)</u>

The composition of the Company management body (BoD) is based on perception that recognizes the benefits of having a diverse Board of Directors and use synergy of different skills, experience, background, race and gender of directors. A balance of these differences is considered when determining the optimum composition of the Board of Directors. The Nomination Committee is responsible for controlling that there is an appropriate balance of skills and experience across the Board.
The Nomination Committee considers that the objectives and targets of the Recruitment and Diversity Policies and Procedures for the selection of the members of management body (BoD) were mainly achieved in 2015.

XI Leverage

In its business strategy the company aims to maximise the value for the shareholders by the means of accepting certain risk including the liquidity risk which could crystallise via excessive leverage. The impact of the leverage could be as positive as negative based on the business model, market conditions, management quality and client base.
Regulation 575/2013 states that “Institutions should monitor the level and changes in the leverage ratio as well as leverage risk as part of the internal capital adequacy assessment process (ICAAP).”
The approach for calculation is stipulated in the article 492 of the Regulation 575/2013 which was amended by delegated regulation (EU) 2015/62. It is noted that the final calibration, and any further adjustments to the definition, will be completed by 2017, with a view to migrating to a Pillar 1 minimum capital requirement on 1 January 2018.

The management of the company constantly monitors the leverage ratio which currently has the minimum requirement of 3%. As December 31, 2015 the company’s leverage ratio was 18.03%. The leverage ratio is a subject of reporting at least on a quarterly basis.

The company has implemented the definite set of systems and controls in managing the leverage ratio – these are collateral requested from clients with additional haircuts where needed to capture the credit risk of the clients and the nature of their trading strategies, cash buffer held with widely diversified number of banks and brokers.

The table below represents the breakdown of total exposure measure as well as a reconciliation of exposure measure with the relevant information provided in financial statements.

Position	Amount, $000
Total assets as per financial statements	**110 271**
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	**0**
Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR"	**0**
Adjustment for derivative transactions	**30 194**
Other adjustments	**0**

The major impact is caused by cash collateral received from the clients and pledged to the central counterparties.