



OTKRITIE CAPITAL CYPRUS LTD

DISCLOSURES IN ACCORDANCE WITH THE DIRECTIVE FOR THE CAPITAL REQUIREMENTS OF INVESTMENT FIRMS FOR THE YEAR ENDED 31 DECEMBER 2016

June 2017

Disclosures in accordance with the Cyprus Securities and Exchange Commission Directive DI144-2014-14 and in accordance with Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

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1 General information and scope of Requirements of the Legislation

This report pertains to the “Disclosure and Market Discipline of Investment Firms” regulatory obligation, in accordance with the provisions of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the council of 26 June 2013 on prudential requirements for credit institutions and investment firms (hereinafter the “CRR” or “Regulation”) and paragraph 32(1) of DI144-2014-14 of the Cyprus Securities and Exchange Commission (the “CySEC”) for the prudential supervision of investment firms (hereinafter the “CRDIV” or “Directive”). Under this regulatory obligation Otkritie Capital Cyprus Ltd (hereinafter the “Company”) is obliged to provide information on its risk management, capital structure, capital adequacy, its risk exposures as well as the most important characteristics of the Company’s corporate governance including its remuneration system. The scope of these disclosures is to promote market discipline and to improve transparency of market participants.

The information that the Company discloses herein relates to the year ended 31 December 2016.

The company

Otkritie Capital Cyprus Ltd (the “Company”) holds a license from the Cyprus Securities and Exchange Commission (“CySEC” or the “Commission”), number CIF 069/06 dated 10 August 2006, which permits the Company to operate as a Cyprus Investment Firm and to provide investment and ancillary services with regards to specific financial instruments as these are defined in the Company’s operating license. The shareholder of Otkritie Capital Cyprus Ltd is Otkritie Holding JSC, Moscow, Russia.

The company is authorized to provide the following services:

Investment Services
<ul style="list-style-type: none"> 1) Reception and transmission of orders in relation to one or more financial instruments 2) Execution of orders on behalf of clients 3) Dealing on own account 4) Portfolio Management
Ancillary Services
<ul style="list-style-type: none"> 5) Safekeeping and administration of financial instruments, including custodianship & related services 6) Granting credits or loans to one or more financial instruments, where the firm granting the credit or loans is involved in the transaction 7) Foreign exchange services where these are connected to the provision of investment services

The above services can be offered for the following financial instruments:

Financial Instruments

- 1) Transferable securities
- 2) Money Market instruments
- 3) Units in collective investment undertakings
- 4) Options, futures, swaps, forward rate agreements and other derivative contracts relating to securities, currencies, interest rates or yields, financial indices or financial measures
- 5) Derivative contracts relating to commodities
- 6) Derivative instruments for the transfer of credit risk
- 7) Financial contracts for differences
- 8) Derivative contracts relating to climatic variables, freight rates, emission allowances or inflation rates or other official economic statistics that must be settled in cash at the option of one of the parties

Scope of Disclosures

The Company is controlled by Otkritie Capital LLC, incorporated in Russia, which owns 100% of the Company's shares. The Pillar 3 Disclosures for the year ended 31 December 2016 are prepared on an individual (solo) basis.

Disclosure Policy

In accordance with the Article 433 of the Regulation (EU) No.575/2013, financial institutions are required to publish the disclosures, required in by Part Eight of the Regulation (EU) No.575/2013 at least on an annual basis.

The Company is required according to the Directive DI 144-2014-14 of CySEC (the “Directive”) to provide a copy of the auditor’s verification report to CySEC, five months after the end of each financial year, at the latest.

The Company discloses information in relation to its capital requirements on an annual basis. The disclosures are published on the Company’s website www.otkritiefinance.com.cy in conjunction with the date of publication of the financial statements.

2 Governance – Board and Committees

2.1 The Board

The Company's Board of Directors comprises of three members, two of which are non-executive and independent to the Company's executive management function and one executive director.

Senior management and the Board of Directors are required to assess and periodically review the effectiveness of the policies, arrangements and procedures put in place to comply with the obligations and take appropriate measures to address any deficiencies.

The major duties of the Board of Directors are:

- To establish, implement and maintain decision-making procedures and an organizational structure which clearly and in documented manner specifies reporting lines and allocates functions and responsibilities
- To ensure that its relevant persons are aware of the procedures which must be followed for the proper discharge of their responsibilities
- To establish, implement and maintain adequate internal control mechanisms designed to secure compliance with decisions and procedures at all levels of the Company
- To employ personnel with the skills, knowledge and expertise necessary for the discharge of the responsibilities allocated to them
- To establish, implement and maintain effective internal reporting and communication of information at all relevant levels of the Company
- To maintain adequate and orderly records of its business and internal organization
- To ensure that the performance of multiple functions by its relevant persons does not and is not likely to prevent those persons from discharging any particular function soundly, honestly and professionally

The senior management receives on a frequent basis and at least annually written reports on the compliance function, risk management function and internal audit matters indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies.

2.1.1 Board Recruitment

The Board of Directors possess adequate knowledge, skills and experience to be able to understand the Company's activities, including the principal risks and ensure the integrity of accounting and financial reporting. Each member of the board of directors acts with honesty, integrity and independence of mind to effectively assess, challenge and monitor the decisions of the senior management where necessary.

The assessment of the initial and ongoing fitness and probity of the relevant persons is conducted by the Nomination Committee. During the assessment, the Nomination Committee ensures that the relevant person:

- Possess the necessary experience, expertise and knowledge to fulfil their responsibilities and functions (education in the areas of banking and finance, economics, law, administration, banking supervision and quantitative methods);
- Act honestly, ethically and with integrity, characteristics which promote a culture of compliance with the regulatory environment governing the Company.

2.1.2 Number of directorships held by members of the Board

The table below provides the number of directorships a member of the management body of the Company holds at the same time in other entities, including the one held in Otkritie Capital Cyprus Ltd. Directorships in organizations which do not pursue predominantly commercial objectives, such as non-profit-making or charitable organizations, are not taken into account for the purposes of the below.

Table 1: Directorships held by the Board of Directors

Name of Director	Position within Otkritie Capital Cyprus Ltd	Directorships Executive	Directorships Non-Executive
Alexander Kupriyanov	Managing Director (Executive)	1	-
Costas Shiatis	Independent Non-Exe. Director	0	2
Veeny Hadjimilti	Independent Non-Exe. Director	-	1

Note: The information in this table is based only on representations made by the Company.

2.1.3 Diversity Policy

The management body is sufficiently diverse as regards age, gender, educational and professional background to reflect an adequately broad range of experiences and facilitate a variety of independent opinions and critical challenge.

2.1.4 Information Flow on Risk to the Management Body

The Board is updated regarding any risk issues by the Risk Manager and is informed of the Risk Management Committee resolutions. In addition, it receives reports on internal audit, compliance and money-laundering issues at least annually. The following table presents the main pieces of information provided to the Board on risk-related issues:

Information	Report prepared by:	Report received by:	Frequency
Risk Management Report	Risk Manager	Board, CySEC	Annually
Internal Audit Report	Internal Auditor	Board, CySEC	Annually
Compliance Report	Compliance Officer	Board, CySEC	Annually
AML Compliance Report	Money Laundering Compliance Officer	Board, CySEC	Annually
Suitability Report	External Auditor	Board, CySEC	Annually
Audited Financial Statements	External Auditor	Board, CySEC	Annually

2.2 Risk Management Committee

The Board of Directors has established the Risk Management Committee, which has the responsibility of overseeing risk management within the Company as a whole. Risk Management Committee is responsible for setting and ensuring implementation of the Risk Management Policy, for the provision of non-core service (granting credits or loans) and for setting limits for clients' marginal trading and forward these limits to the Risk Management Department.

The role of the Risk Management Committee is:

- Set the tone and influence the culture of risk management within the Company. This includes the determination of whether the Company is 'risk taking' or 'risk averse' as a whole, or on any relevant individual issue and of what types of risk is acceptable and which are not. In addition the Committee sets the standards and expectations of staff with respect to conduct and probity.
- Determine the appropriate risk appetite or level of exposure for the Company.
- Approve major decisions affecting the Company's risk profile or exposure.
- Monitor the management of fundamental risks to reduce the likelihood of unwelcome surprises.
- Review the Company's approach to risk management on a monthly basis, and approve changes or improvements to key elements of its processes and procedures. Key risk indicators will be identified by the Risk Management Committee and closely monitored on a regular basis.
- Set limits for clients (evaluation of customer financial data).
- Report to the Board of Directors on the matter of the provisions of granting credits or loans.

Approved limits are regularly reviewed by the Risk Management Committee to accomplish proper control over compliance of the size of granted credits to the limits available to the client and to the size of the company's funds available/allocated for this ancillary service. In case the limits are modified they are immediately forwarded to the Risk Management Department which executes the day to day control over the observance of such limits. The Risk Management Committee regularly

reports to the Board of Directors on the matter of the provision of granting credits or loans. The Risk Management Committee monitors the company's risk management procedures and report to the Board of Directors any deficiencies that have been identified.

The Risk Management Committee consists of the Chairman, the Managing Director, and one Independent Director of the Company and the Head of Back Office/Safekeeping/Accounting & Administration (4 persons). During 2016, the Risk Management Committee met five (5) times.

2.3 Risk Committee

The Board of Directors has established the Risk Committee, which has the responsibility of advising the Board of Directors on the Company's overall current and future risk appetite and strategy and assisting the board of directors in overseeing the implementation of that strategy by senior management. The board of directors must retain overall responsibility for risks. The Risk Committee reports directly to the Board of Directors.

The role of the Risk Committee is to:

- Advise the board of directors on the Company's overall current and future risk appetite and strategy and assist the board of directors in overseeing the implementation of that strategy by senior management.
- Review whether prices of liabilities and assets offered to clients take fully into account the Company's business model and risk strategy. Where prices do not properly reflect risks in accordance with the business model and risk strategy, the risk committee shall present a remedy plan to the board of directors.
- Determine the nature, the amount, the format, and the frequency of the information on risk which it is to receive.
- Examine whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings.
- Ensure that all material risks are identified, measured and properly reported.
- Be actively involved in elaborating the Company's risk strategy and in all material risk management decisions and that it can deliver a complete view of the whole range of risks of the institution.

The Risk Committee consists of two Independent Directors of the Company. During 2016 the Risk Committee met one (1) time.

2.4 Nomination Committee

The Board of Directors has established the Nomination Committee, which has the following responsibilities:

- To identify and recommend, for the approval of the board of directors or for approval of the general meeting, candidates to fill vacancies in the board of directors, evaluate the balance of knowledge, skills, diversity and experience of the board of directors and prepare a description of the roles and capabilities for a particular appointment, and assess the time commitment expected;
- To decide on a target for the representation of the underrepresented gender in the board of directors and prepare a policy on how to increase the number of the underrepresented gender in the board of directors in order to meet that target. The target, policy and their implementation shall be made public in accordance with Article 435 paragraph 2, point c) of Regulation (EU) No 575/2013;
- To assess periodically, and at least annually, the structure, size, composition and performance of the board of directors and make recommendations to the board of directors with regard to any changes;
- To assess periodically, and at least annually the knowledge, skills and experience of members of the board of directors individually, and of the board of directors collectively, and report to the board of directors accordingly (e) periodically review the policy of the board of directors for selection and appointment of senior management and make recommendations to the board of directors;
- To ensure that the board of directors' decision making is not dominated by any one individual or a small group of individuals in a manner that is detrimental to the interests of the company as a whole;
- To periodically review the policy of the board of directors for selection and appointment of senior management and make recommendations to the board of directors;

Nomination Committee should be able to use any forms of resources that it considers to be appropriate, including external advisors, and shall receive.

The Nomination Committee consists of two Independent Directors of the Company. During 2016, the Nomination Committee met one (1) time.

2.5 Remuneration Committee

Information on the Remuneration Committee can be found in the Remuneration section (10) of this document.

2.7 Investment Committee

Concerning provision of the investment services of portfolio management the Board of Directors have established an Investment Committee which analyzes the investment potential and contributes to the elaboration of the requisite investment policy, so as to achieve the appropriate provision of the company's services to their customers.

The Investment Committee has established an Investment Policy which has been approved by the Board of Directors. The Investment Policy consist the decisions or suggestions of the Board of Directors in respect of the following issues:

- The shaping of the investment choices framework against which the Own Account and Portfolio Management Departments will be operating;
- The investor categorization criteria;
- The company's pricing policy in respect of provision of the investment service of portfolio management.
- The mode, content and frequency of the company's briefing of its customers in respect of the transactions and balance of their investment account;
- The markets and the financial instruments in which the company shall be active;
- The making or avoidance of specific investment choices.

The Investment Committee consists of the Chairman who is also the Managing Director of the company, the Head of Risk Management, Head of Portfolio Management , the Executive Director and the Manager of Own Account Trading (5 persons). During 2016, the Investment Committee met three (3) times.

2.8 Complaints Committee

The Company has formed a Complaints Committee. The Compliance Officer provides the Complaints Committee with the complaints received and then the Compliance Committee reviews all the complaints and provides with the actions that should be undertaken. The Complaints Committee also provides with the advice on how to minimize the complaints from the customers (if and where applicable). The Complaints Committee reviews the Complaints Policy and provides to the Board of Directors the amendments to the policy for the approval.

The Complaints Committee consists of the Chairman who is also the Managing Director of the Company, an Independent Director, the Head of Risk Management and the Compliance Manager (4 persons). During 2016, the Complaints Committee met twice (2).

3 Risk Management Objectives and Policies

3.1 General Principles of Risk Management

The Company recognizes that risk-taking is inherent to its business activities and outlines the following main types of risks: credit, market, operational risks. The main objective of risk management is reaching an optimal balance between the level of risk and profitability. Risk management reduces risks to the level accepted by the Company. The effectiveness of the risk management rests on the following aspects: positive corporate culture (implies individual responsibility for the decisions made), actively observed policies and procedures, use of technology (for risk assessment and communication), independence of risk management professionals. Active observation and updating of current policies and procedures is conducted in the Company leading to systematization of processes of risk management. The risk exposure is monitored on a regular basis.

The Company's risk management framework has been developed to:

- Govern risk through a system of Committees and by the Board of Directors.
- Exercise main risk functions by an independent Risk Management Department.
- The Board of Directors to have a supervisory function. It is responsible for the Company's fundamental approach to risk, for approving the risk principles and for defining risk capacity and risk appetite.
- The Risk Manager to have the overall responsibility for the development, implementation and enforcement of Company's risk principles.

It is the responsibility of all management to:

- Identify potential business risks
- Assess these risks
- Create awareness of these risks
- Correctly respond to and manage these risks
- Proactively balance risk, reward and controls
- Monitor the risks
- Report annually on these risks and the risk profile

Risk Management Function:

The Company maintains a Risk Management Department that is headed by the Head of Risk Management. The Head of Risk Management Department ranks high in the hierarchy of the Company, reporting only to the General Manager and the Board of Directors, ensuring that he/she possesses the requisite authority to ensure compliance with the directions issued by the Department

3.2 Internal Audit

The Company, taking into account the nature, scale and complexity of its business activities, as well as the nature and the range of its investment services and activities, shall establish and maintain an internal audit function through the appointment of a qualified and experienced Internal Auditor. The Internal Auditor is outsourced to an external provider and reports to the Senior Management of the Company.

The Internal Auditor is responsible for applying the Internal Control System (hereinafter, the “ICS”), which confirms the accuracy of the reported data and information. Furthermore, the role of the Internal Auditor shall be the programming, on an at least annual basis (as applicable), of checks on the degree of application of the required ICS.

The Internal Auditor has clear access to the Company’s personnel and books. Likewise, the Company’s employees have access to the Internal Auditor for the reporting of any significant deviations from the guidelines provided. The Board ensures that internal audit issues are considered when presented to it by the Internal Auditor and appropriate actions are taken. The Board ensures all issues are dealt with and prioritized according to the Board’s assessment.

3.3 Compliance Function

Otkritie Capital Cyprus Ltd pays particular attention to the effective performance of the compliance function because of the scale and complexity of its business activities, as well as the nature and the range of its investment services. In particular, it ensures at least the following:

- To apply a risk-based approach in order to allocate the function’s resources efficiently;
- To establish a monitoring program, which takes into consideration all areas of services, activities and other business provided/performed by the Regulated Entity;
- To prepare the Compliance reports that are forwarded to the persons who effectively direct the Regulated Entity and evaluate them in order to take appropriate measures to correct any deficiencies;
- To provide support and assistance to all departments/units/functions of the Regulated Entity;
- To have the necessary authority, resources and expertise required, as well as access to all relevant information;
- To perform its duties and responsibilities on a permanent and continuous basis;
- To act independently when performing its tasks;
- To ensure that in case of outsourcing of all or part of the compliance function, all applicable requirements for the compliance function are satisfied;
- To ensure that any combination of the compliance function with other control functions does not compromise the effectiveness and independence of the compliance function.

The Compliance Officer is of permanent and independent nature in order to establish, implement and maintain adequate and effective policies and procedures as well as appropriate systems and controls designed to detect any risk of failure by the Company to comply with its obligations. Further to this, the Compliance Officer is responsible to, put in place such adequate measures and procedures designed to minimize such risk and to enable the competent authorities to exercise their powers effectively. The Compliance Officer reports to the Senior Management of the Company and has the necessary authority, resources, expertise and access to all relevant information and exercise his/her duties with due diligence.

3.4 Money Laundering Compliance Officer

The Compliance and Anti-Money Laundering department is responsible for compliance and monitoring the operations and transactions of the Company for compliance with CySEC requirements, avoidance of conflict of interest, insider dealing, preservation of confidential information and anti-money laundering policies and procedures. In accordance with article 5 of the Directive Compliance officer has necessary authorities, resources and accesses to all relevant information and documents. Compliance officer was appointed by the Board of directors and reports to the Board of directors directly. Compliance officer is not involved in the performance of services she monitors.

Duties and responsibilities of the Compliance/MLCO include (but are not limited to) the following:

- Responsibility for oversight of the Company's legal, regulatory and documentary compliance and in particular compliance with the AML Law and directives of CySEC;
- Provide regulatory and compliance advice to the management, employees and Board of Directors;
- Identification and address conflicts of interest;
- Preparation of reports required by law to the Board of Directors;
- Run checks of the customers identity concerning Money Laundering and involvement in terrorist financing;
- Ensure all internal policies and procedures are up to date and distributed to relevant staff;
- Review and update internal policies when the relevant legislation is amended/other;
- Ensure that procedures described in the procedures manual are fully implemented;
- Maintain the Watch List and Restricted List in accordance with the provisions of the legislation;
- Monitor customer's transactions for suspicious transactions relating to money laundering;
- Categorize customers in accordance with MiFID requirements;
- Responsible for the reporting of suspicious transactions to the relevant competent authority (MOKAS) as provided in the AML directive of CySEC;
- Responsible for maintaining communication with CySEC and ensure that all reports are submitted to CySEC within stipulated deadlines.

4 Risk Appetite Statement

As a part of the annual business planning process the Company's Risk Appetite Statement is approved by the Board based on Strategy presented by CEO in cooperation with Heads of Business Lines and capital usage recommendations by Risk Management Committee and further communicated to responsible business units. The Company incorporates measurements of earnings, capital adequacy and regulatory compliance against its plan targets in its monthly management reporting. Risk Management establishes the limits according to defined risk appetite and monitors the corresponding risk profile to the Company risk appetite.

The Company's risk appetite statement, which describes the Company's overall risk profile associated with the business strategy, is provided in Appendix 1.

5 Board Declaration – Adequacy of the Risk Management arrangements

The Company maintains adequate risk management policies and procedures in order to identify the risks relating to the Company's activities, processes and systems and set the level of risk tolerated. These policies and procedures are constantly updated in accordance with the changing supervisory requirements, business environment of the Company and recommendations of the internal audit and compliance units.

6 Capital Management

The Company manages its capital to ensure that it will be able to continue as a going concern while increasing the return to shareholders through the improvement of debt to equity ratio. The Company's overall strategy remains unchanged from last year.

The legal and regulatory framework under which the Company operates stipulates that the Company must maintain a minimum capital adequacy ratio, being 8% as at 31 December 2016. The method of calculation is set up by the regulatory authority based on the International Basel III capital adequacy requirement directives. The Company aims to always maintain a high capital adequacy ratio well above the required minimum. The capital adequacy ratio is reported to the Company's regulatory authority on a quarterly basis.

The Company's objective when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The Company maintains only Tier 1 capital as eligible own funds: share capital and retained earnings.

The risk weighted assets are measured by means of a hierarchy of risk weights classified according to their nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees.

7 Capital Base

The Capital Base of the Company is consisted solely of Common Equity Tier 1 capital. Common Equity Tier 1 capital is comprised of share capital, share premium, retained earnings and the audited loss from current year. From Common Equity Tier 1 capital, intangible assets and investors compensation fund (ICF) are deducted.

As at the 31/12/2016, the level of own funds was \$ 37.286 thousands. As at 31/12/2016 the Capital Adequacy Ratio was 79.86%. The Company as at 31/12/2016 marginally exceeded the large exposure limit of 2% to the shareholders.

Table 2 below shows a breakdown of the own funds as at 31/12/2016.

Table 2: Capital Base	
	31 December 2016 (\$000)
Common Equity Tier 1 Capital	
Share Capital	11.661
Share Premium	19.187
Retained earnings	6.541
Intangibles	
Additional deductions due to the CRR	(103)
Total Common Equity Tier 1 Capital (CET1)	37.286
Additional Tier 1 (AT1)	-
Total Tier 1 (T1 = CET1+AT1)	37.286
Tier 2	-
Total Eligible Capital (=T1+T2)	37.286

Share capital

Authorized capital

The authorized share capital of the Company as at 31st December 2016 was 9.000.000 ordinary shares of nominal value of €1 each

Issued capital

As at 31 December 2016 the Company issued 9.000.000 ordinary shares at a nominal value of €1 each.

8 Capital Requirements

Minimum regulatory capital requirements:

The CySEC requires each investment firm to maintain a minimum ratio of capital to risk weighted assets of 8% for Pillar I risks plus additional capital buffers as applicable, while it may also impose additional capital requirements for risks not covered by Pillar I. As at 31 December 2016, the Company was subject to a minimum Pillar I capital adequacy ratio of 8%, plus a capital conservation buffer of 0,625% as per the transitional application provisions for buffers, resulting to an overall minimum requirement of 8,625%.

The total capital requirements of the Company as at 31 December 2016 amounted to \$3.829 thousand and are analyzed in Table 3 below:

Table 3: Minimum Capital Requirements	
Risk Category	Minimum Capital Requirements (\$000)
Credit Risk	809
Market Risk	1.835
Operational Risk	1.054
CVA	37
Total	3.735

8.1 Credit Risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The Company is exposed to credit risk when trading with various counterparties and when placing funds with banks and other parties. The Company manages its credit risk via establishing credit limits and by securing collateral for margin lending transactions.

The Company manages its credit risks via establishing credit limits and by securing collateral for margin lending transactions. Risk evaluation is carried out on all types of issuers of financial instruments so that appropriate limits are put in place at Risk Management Committee meetings and these limits are available in the minutes of RMC accordingly. The limits are quantified based on the assessment of creditworthiness of the counterparty or an issuer. Where external ratings of the counterparty or an issuer are available the firm may also use that for limit setting purpose. The ultimate risk exposure amount is given in terms of capital. All limits are calculated taking into account their impact over the capital and also the financial position of a particular counterparty or an issuer.

The Risk Management monitors the clients' and Company's credit risk on a daily basis. In case of limit violations, a report is prepared and submitted to the Investment Committee and action is taken so that the risk is eliminated. In addition the Risk Management Committee also reviews the Portfolio Management Department's log book in respect of Counterparty limits and Credit Risk limits of issuers.

Capital Requirements

The Company follows the Standardized Approach for the calculation of the minimum capital requirements for credit risk.

Table 4 below presents the allocation of credit risk in accordance with the Standardized Approach exposure classes.

Table 4: Exposure Classes and Minimum Capital Requirements		
Exposures at 31 December 2016	Risk-weighted amounts (\$000)	Minimum Capital Requirements (\$000)
<u>Exposure Class</u>		
Public Sector Entities	155	12
Institutions	7.666	614
Corporates	2.015	161
Other Items	280	22
Total	10.116	809

Nominated External Credit Assessment Institutions ("ECAIs") for the application of the Standardized Approach

According to the requirements of the Directive, under the Standardized 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

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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 Company has used the credit quality step mapping table below to map the credit assessment to credit quality steps.

Table 5: Credit Quality Step Mapping table			
Credit Quality Step	Fitch	Moody's	S&Ps
1	AAA to AA-	Aaa to Aa3	AAA to AA-
2	A+ to A-	A1 to A3	A+ to A-
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-
5	B+ to B-	B1 to B3	B+ to B-
6	CCC+ and below	Caa1 and below	CCC+ and below

A breakdown of the Company's exposures by Credit Quality Step (CQS) is given in the following table:

Table 6: Breakdown by CQS by counterparty			
Exposures at 31 December 2016	Exposure Value before Credit risk mitigation (\$000)	Exposure Value after Credit risk mitigation (\$000)	
<u>Credit Quality Step</u>			
1	40.492	37.358	
3	733	733	
6	233	233	
Unrated/Not applicable	1.562	1.562	
Total	43.020	39.886	

Average Exposure

The average exposure of the Company in 2016, broken down by asset class, is shown in Table 6 below:

Table 7: Average Exposure in 2016		
Exposure Class	Original exposure amount, net of specific provisions (\$'000)	Average Exposure (\$'000)
Public Sector Entities	103	108
Institutions	37.488	56.201
Corporates	2.015	15.146
Other Items	280	492
Total	39.886	71.947

Residual Maturity of Credit Risk Exposures

Table 8: Exposure Classes and Residual Maturity		
Exposures at 31 December 2016	Maturity \leq 3 months (\$'000)	Total (\$'000)
<u>Exposure Class</u>		
Public Sector Entities	103	103
Institutions	37.488	37.488
Corporates	2.015	2.015
Other Items	280	280
Total	39.886	39.886

Geographic Distribution of Credit Risk Exposures

Table 9: Exposure Classes by Country					
	Cyprus	United Kingdom	Russia	Other	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
<u>Exposure Class</u>					
Public Sector Entities	103	-	-	-	103
Institutions	130	37.356	-	3	37.489
Corporates	1.246	-	732	36	2.014
Other Items	280	-	-	-	280
Total	1.759	37.356	732	39	39.886

Industry of Credit Risk Exposures

Table 10: Exposure Classes by Industry				
Exposures at 31 December 2016	Financial	Other	PSE	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
<u>Exposure Class</u>				
Public Sector Entities	-	-	103	103
Institutions	37.489	-	-	37.489
Corporates	2.014	-	-	2.014
Other Items	-	280	-	280
Total	39.503	280	103	39.886

Counterparty Credit risk

Table 11: Counterparty Credit Risk						
Type of exposure	Positive Fair Value	Negative Fair Value	Nominal Value	Exposure Amount before & after CRM	Risk Weighted Assets	Capital Requir.
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Derivative contracts	-	372	12.463	1.246	1.246	100
Total	-	372	12.463	1.246	1.246	100

The Company applies the Mark-to-Market Method to calculate its Counterparty Credit Risk exposure with clients.

Impairment of assets

A financial asset not classified at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset or a group of financial assets is 'impaired' if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset(s) and that loss event(s) had an impact on the estimated future cash flows of that asset(s) that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

As at the end of December 2016, the Company didn't have any past due exposures.

Exposures in equities not included in the trading book

During the year 2016 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.

Interest rate risk in non-trading book activities

Risk management monitors the risk profile of the firm in this area of risk. The risk management committee reviews and makes decisions on the acceptance of the interest rate risk on a case by case basis.

There were no positions which are subject of this risk at the end of 2016.

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.

8.2 Market Risk

Market price risk is the risk that changes in market prices such as interest rates, equity prices, and foreign exchange rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the return on risk.

Price risk

The Company is exposed to price risk from fluctuations in securities prices in relation to securities held. The risk arising from changes in securities prices is managed through diversifications of the investment portfolio and short term holding of securities. In certain circumstances, the Company may take positions as part of corporate brokerage transactions being conducted on behalf of clients where this is related to the wider activities of facilitation of agency broking. Such positions are carefully monitored and may only be taken within the limits applied to the overall long or short positions permissible, as well as a limit on positions in a single stock. The Company's actual exposure against these limits is identified, monitored and reported on a daily basis.

The limits are set at the Risk Management Committee meetings and are available in minutes of these meetings. The basis of the limits is the amount of capital allocated for a particular business line. Based on this capital amount the position limits are quantified. Also taking into account the economic capital concept the firm's risk management calculates the limits on financial result. The Risk Management Committee monitors the market risk arisen from the holdings on a daily basis. In case of limit violations, a report is prepared and submitted to the Investment Committee and action is taken so that the risk is eliminated.

Currency Risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's functional currency. The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US Dollar, the Euro, the Great Britain Pound and the Russia Rubles. The Company's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

The Company uses the Standardized Method to measure capital requirements for market risk.

The Company's Market Risk Capital Requirement as at 31/12/2016 was \$1.835 thousand as shown in Table 12

Table 12: Market RWA's and Capital Requirement		
Risk Type	Capital Requirement \$'000	Risk Weighted Assets \$'000
Market		
<i>of which Equity market risk</i>	94	1.175
<i>of which Commodity market risk</i>	950	11.876
<i>of which Interest rate market risk</i>	478	5.973
<i>of which FX market risk</i>	313	3.917
Total	1.835	22.941

8.3 Operational Risk

Operational risk is defined in the company as the risk deriving from the failure or malfunctions in 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 aiming at promoting and developing the risk culture among the employees where operational risk is identified and monitored through reporting of operational risks; the staff is involved in various trainings and continuous evaluation, as well as monitoring and upgrading the Company's systems.

Due to the nature of the business and insignificance of the company's activities the Board of Directors decided to employ the Basic Indicators Approach as from the board's point of view it's the most appropriate one to measure the operational risk and the capital requirement accordingly. According to the BIA, the operational risk capital requirement was 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.

The Operational Risk Capital Requirement of the Company as at 31/12/2016 amounted to \$1.054 thousand as per Table 13 below:

Table 13: Operational Risk RWA's and Capital Requirement					
	2016	2015	2014	RWA	Capital Requirements
	\$000	\$000	\$000	\$000	\$000
Basic Indicator Approach (BIA)	8.332	- 7.698	5.715	13.169	1.054

8.4 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 has procedures with the object of minimizing such losses such as maintaining sufficient cash and other highly liquid current assets. Monitoring of the liquidity risk is an integral part of the day to day risk management.

Specifically, in order for the Company to achieve its objective of minimizing liquidity risk, the Board of Directors ensures that:

- Sufficient cash deposits and highly liquid assets are maintained
- Daily reconciliations of cash balances and payments are performed

8.5 Compliance Risk

Compliance risk is the risk of financial loss, including fines and other penalties, which arises from non-compliance with laws and regulations of the state. The risk is limited to a significant extent due to the supervision applied by the Compliance Officer, as well as by the monitoring controls applied by the Company.

8.6 Litigation Risk

Litigation risk is the risk of financial loss, interruption of the Company's operations or any other undesirable situation that arises from the possibility of non-execution or violation of legal contracts and consequentially of lawsuits. The risk is restricted through the contracts used by the Company to execute its operations.

8.7 Reputation Risk

The risk of loss of reputation arising from the negative publicity relating to The Company's operations (whether true or false) may result in a reduction of its clientele, reduction in revenue and legal cases against the Company. The Company applies procedures to minimize this risk.

8.8 Regulatory Risk

Where clients' assets are held in non EU jurisdictions, there may be different settlement, legal and regulatory requirements in such jurisdictions from those applying in Cyprus, or in the European Union.

In particular, the clients' securities and funds may be registered with the Company itself or with the Company's associated companies, or, in the case of provision to the Company of custodian services by third parties, the securities may be registered or recorded in the name of that third party or sub custodian used by that party.

In such cases, the clients' assets in question may not be segregated from the assets of the Company and/or from the assets of the Company's associated companies, third party offering custodian services or sub custodian used. In the event of failure of any of the aforesaid (i.e. in the event of appointment of a liquidator, receiver or administrator, or trustee in bankruptcy or any other equivalent procedure in any relevant jurisdiction), the clients' assets may not be adequately protected from possible claims made on behalf of the general creditors.

In order to address such risks, the Company has implemented an electronic system for analytical accounting of clients' assets which ensures that, internally, assets owned by each client are strictly segregated from each other and from the assets owned by the Company.

It must be noted that the legislation of the Russian Federation, requires from the Company when acting as custodian, to open and maintain safe custody accounts for accounting of financial instruments issued by Russian issuers only and exclusively with custodians domiciled in the Russian Federation. The clients have provided their formal written consent in relation to holding of their assets in jurisdictions outside EU.

9 Leverage

The Basel III/CRD IV framework introduced a simple, transparent, non-risk based ratio to act as a credible supplementary measure to the risk-based capital requirements. This ratio is commonly known as “Leverage ratio”.

Leverage ratio is defined as the capital measure (i.e. the institution’s Tier 1 capital) divided by the exposure measure as this is defined in the European Commission’s Regulation (EU) 2015/62 of 10 October 2014 amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio. 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 I minimum capital requirement on 1 January 2018.

The minimum requirement for the purposes of leverage ratio is currently assessed to 3%. The Company’s leverage ratio as at the reference date is 58,61%.

The table below, provides a reconciliation of accounting assets and leverage ratio exposures.

Table 14: Reconciliation of accounting assets and Leverage ratio exposures

	Applicable Amounts \$‘000
Total assets as per published financial statements	71.337
Adjustments for derivative financial instruments	1.246
Other adjustments	(8.962)
Total Leverage ratio exposure	63.621

The table below provides a breakdown of the exposure measure by exposure type.

Table 15: Breakdown of the exposure measure by exposure type

	CRR Leverage ratio exposures \$'000
On-balance sheet exposures (excluding derivatives and SFTs)	
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	62.478
(Asset amounts deducted in determining Tier 1 capital)	(103)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	62.375
Derivative exposures	
Replacement cost associated with <i>all</i> derivatives transactions (i.e. net of eligible cash variation margin)	-
Add-on amounts for PFE associated with <i>all</i> derivatives transactions (mark-to-market method)	1.246
Total derivative exposures	1.246
Securities financing transaction exposures	
Total securities financing transaction exposures	-
Other off-balance sheet exposures	
Other off-balance sheet exposures	-
Capital and total exposures	
Tier 1 capital	37.286
Total Leverage ratio exposures	63.621
Leverage ratio	
Leverage ratio (%)	58,61%

The following table provides a breakdown of total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures) by asset class.

Table 16: Breakdown of total on-balance sheet exposures

	CRR leverage ratio exposures \$'000
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	
Trading book exposures	4.412
Banking book exposures, of which:	59.209
Covered bonds	-
Exposures treated as sovereigns	-
Exposures to regional governments, MDB, international organizations and PSE NOT treated as sovereigns	-
Institutions	58.163
Secures by mortgages of immovable properties	-
Retail exposures	-
Corporate	768
Exposures in default	-
Other exposures (e.g. equity, securitizations, and other non-credit obligation assets)	280

Description of the Processes Used to Manage the Risk of Excessive Leverage

In order to manage the risk of excessive leverage, the Company monitors its Leverage ratio at least on a quarterly basis and ensures that it is always well above the recommended threshold of 3%.

Factors that had an Impact on the Leverage Ratio during the Period

The Leverage ratio of the Company over the financial year 2016 ranged between 17,05% (31 December 2016) and 58,61% (30 September 2016) with an average rate of 39,79%.

10 Remuneration

The Board oversees remuneration policies and procedures, including this Policy, and provides an independent view into the remuneration decisions. The Board takes into consideration financial and non-financial criteria, risk and compliance reports, and any other relevant information in making decisions around remuneration.

Remuneration Principles:

The management body (supervisory function), adopts and periodically reviews the general principles of the remuneration policy and is responsible for its implementation.

- The remuneration policy is consistent with and promotes sound and effective risk management and does not encourage risk-taking that exceeds the level of tolerated risk of the company;
- The implementation of the remuneration policy is, at least annually, subject to central and independent internal review for compliance with policies and procedures for remuneration adopted by the board of directors;
- The remuneration policy is in line with the business strategy, objectives, values and long-term interests of the company, and incorporates measures to avoid conflicts of interest
- The remuneration of the senior officers in the risk management and compliance functions is directly overseen by the remuneration committee
- 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 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 total variable remuneration does not limit the ability of the Company to strengthen its capital base.
- Guaranteed variable remuneration is exceptional and occurs only when hiring new staff and is limited to the first year of employment.
- Guaranteed variable remuneration is not consistent with sound risk management or the pay-for-performance principle and shall not be a part of prospective remuneration plans.

Remuneration Components:

Fixed and variable components of total remuneration are appropriately balanced, with the fixed element being set at a sufficient level to ensure the variable component may be operated in a fully flexible manner, including the possibility of there being zero variable remuneration in any particular year.

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 Company and professional activity as well as market practice.

The variable component of the remuneration is based on qualitative criteria and more closely reflects the desired conduct of the employees to act in the best interests of the clients.

Fixed Remuneration:

It is determined on the basis of the role of the individual employee, including responsibility and job complexity, performance and local market conditions.

Variable Remuneration (performance-based remuneration / bonus):

It motivates and rewards high performers who strengthen long-term customer relations, and generate income and shareholder value. On an annual basis, as this is mentioned above, the employees complete performance review. The Board of Directors determine a maximum percentage of performance-based remuneration relative to the fixed remuneration. The remuneration of the senior officers in the risk management and compliance functions is directly overseen by the remuneration committee.

Principles of Variable Remuneration:

- The variable component shall not exceed 100 % of the fixed component of the total remuneration for each individual;
- The measurement of performance used to calculate variable remuneration components or pools of variable remuneration components includes an adjustment for all types of current and future risks and takes into account the cost of the capital and the liquidity required;
- The allocation of the variable remuneration components within the CIF must also take into account all types of current and future risks;
- This risk-based self-assessment should evaluate the extent to which the Company has met with the following expectations:
 - 1) The total variable remuneration to be paid by the Company does not limit its ability to strengthen its capital base.
 - 2) Total variable remuneration is significantly reduced when the Company produces a reduced or negative financial performance.

The six main remuneration components are:

- **The pension scheme;** aims to provide employees with a suitable pension payment on retirement. At present the pension scheme is not offered.

- **Other benefits;** may be offered from time to time. These may be changed or withdrawn or added to at the discretion of the Board. As at the date of the Policy, these benefits include Medical Insurance only.
- **Severance payments;** are awarded on the basis of individual employment contracts and local market practice.
- **Guaranteed variable pay;** shall be granted only in exceptional cases to attract highly specialized individuals. In accordance with international recommendations, such pay is granted for a term of one year only.
- **Special remuneration arrangements;** including sign-on, redundancy or termination payments not set out in the employment contracts must be approved by the Remuneration Committee and the Board of Directors, before being agreed.

Early termination

Both in case of termination of the agreement on account of withdrawal by Otkritie Capital Cyprus Ltd and on account of voluntary resignation of the senior manager or executive director, notice shall be given at least (specified in employment agreement) days in advance, which may be replaced with an amount equivalent to the remuneration of the non-observed term of notice.

Remuneration of the Board of Directors

The fixed remuneration pay of members of the Board is set at a level believed to be on par with the rest of the market, and reflects the individual Board member's qualifications, contribution and responsibilities.

The remuneration committee should make recommendations to the board on the executive directors' remuneration and determine on their behalf specific packages for each of the executive directors, including pension rights (not yet implemented) and any compensation payments.

The remuneration of directors, in their capacity as members of the committees of the board of directors, should be determined by the board itself and should be in accordance with the time they devote to the affairs of the company, taking into account the remuneration of other directors, other employees of the company and, in cases where part of the remuneration is connected with performance criteria, such criteria should be based on the long-term viability of the company and the need to foster the long-term value of the company.

The remuneration of directors, in their capacity as members of the board of directors, should be approved by the shareholders at a general meeting. In determining the remuneration of directors, the remuneration of non-executive directors should not be linked to the performance of the company and should not contain share purchase options.

Remuneration Committee

The Board of Directors has established the Remuneration Committee, which has the following responsibilities:

- Exercising competent and independent judgment on remuneration policies and practices and the incentives created for managing risk, capital and liquidity;
- Preparing the decisions regarding remuneration, including those which have implications for the risk and risk management of the company concerned and which are to be taken by the board of directors.

The Remuneration Committee shall take into account the long-term interests of shareholders, investors and other stakeholders in the company and the public interest.

The Remuneration Committee consists of two Independent Directors of the Company. During 2016, the Remuneration Committee met four (4) times.

Remuneration and Capital

Table 17 below presents a breakdown of the annual remuneration for those categories of staff whose professional activities have a material impact on the risk profile of the Company, by business area:

Table 17: Aggregate Remuneration by Business Area			
Business Area	Fixed Salary	Variable Salary	Aggregate Remuneration (\$'000)
Control Function	556	59	615
Trading Function	405	115	520
Total	961	174	1.135

The aggregate remuneration for 2016, broken down by Senior Management & Executive and Non-Executive Directors and members of staff whose actions have a material impact on the risk profile of the Company, is as follows.

Personnel	No. of people	Fixed (\$'000)	Variable (\$'000)	Total (\$'000)
Senior Management (incl. executive and non-executive directors)	7	554	59	613
Other risk Staff	5	407	115	522
Total	12	961	174	1.135

Appendix I – Risk Appetite Statement

Definition of Risk Appetite and Risk Parameters

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 Firm business and proposed strategy;
- The Firm deals with well-established and reliable counterparties;
- The Firm bears credit exposure in non-trading book;
- The Trading Book activities scope includes the facilitation of clients' orders and proprietary trading activities;
- The Firm mainly focuses its business activities to various financial instruments traded in Russian financial markets or derived from/ based on those;
- The firm's risk profile should also be optimized using risk transfer and risk mitigation tools;

Setting those targets the Board states that it is focused at value enhancement of the firm and will consider risk vs opportunity relationship for any types of risk.

Credit risk

The Firm is willing to seek and manage credit risk in CIS based and related clientele and CIS related instruments where the firm has a competitive advantage to fulfill its mission of maximizing outcome of its activities.

In order to protect the sustainable development of the firm the Board maintains the certain boundaries for activities in this area:

- a) The firm's credit risk exposure is limited by BB-/Ba3 or ICR18/ICR19¹
- b) Maintain flexibility to enter by accept of the Risk Management Committee into high risk transactions, provided that this exposure to single name or group of connected persons is limited by 10% of risk capital consumed by business line. This will allow the firm to benefit from a balanced position between small number of high risk deals and large number of low risk deals.

The firm seeks to compensate for bearing credit risk exposures with a pricing that provides the target net return on capital.

The following limits should be in place to maintain the chosen credit risk profile:

Settlement risk limits, pre-settlement risk limits, issuer limits, total capital utilization limit for credit risk consumers.

Market risk

The Board accepts market risk (asset value changes due to changes in securities prices, interest rates, FX rates, increased volatility) under certain conditions or within specified ranges of exposure:

- The company is focused at developed markets (US, Canada, EU) equity instruments;
- The company's prop book in equity instruments consists of equity spot positions and hedging derivative contracts;
- The Firm also maintains a book of contracts in commodities in order to facilitate the execution of clients orders;
- FI prop positions portfolio is limited to duration of 4;
- No exotic derivative contracts are allowed.

Market risk exposure of the firm is also a subject of hedging. The following limits should be in place to maintain the chosen market risk profile:

Gross & net exposure limits, stop-loss limits/max drawdown limit, illiquid asset limit, VaR/Stress-test limits; DV01; Greeks (Delta, Gamma, Vega, Rho), time buckets; eligibility criteria for collateral; maximum liquidity consumption limit; risk capital utilization limits.

Operational risk

The board accepts certain amount of operational risk that will be actively monitored and minimized through adequate controls and processes to eliminate potential sources of errors and frauds that might harm the company. The parameters are set as follows:

- Maximum acceptable operational loss should not exceed 1% of capital
- Minimum acceptable performance of IT systems – 99.5%

The following limits should be in place to maintain the chosen operational risk profile:

Operational risk limits will be defined according to relevant dimensions of operational risk mapping (event types, business lines, business continuity policy), subject of availability of operational loss data.

Liquidity risk

It is accepted to the extent of sufficient funding to meet the liabilities within at least 3-month time period under severe conditions or stress scenario (which should include but not to be limited to):

- Liquidity squeeze to the levels of credit crunch 2008-2009
- Sovereign rating downgrades or defaults in EU zone or in CIS
- Global economy downturn

The following limits should be in place to maintain the chosen operation risk profile:

Eligibility criteria for “liquid” assets; Prudential Minimum Liquidity requirement over 3-month time horizon.

All other risks which are not strictly related to the firm’s strategy or which the firm has no competitive advantage in managing, should be avoided, minimized or insured to protect the firm’s capital:

- Reputational, fiduciary risks and environmental misses are not tolerable.
- Compliance risk – zero tolerance.

Appendix II – BALANCE SHEET RECONCILIATION

Balance Sheet Description	Amount (\$'000)
Share Premium, as per published financial statements	19.187
Share Capital, as per published financial statements	11.661
Retained Earnings, as per published financial statements	6.541
Non reciprocal shareholder contribution	-
Intangible assets/Goodwill, as per published financial statements	-
Additional deductions due to the CRR	(103)
Deferred Tax assets, as per published financial statements	-
Adjustments to Own Funds for the purposes of Own Funds	-
Total Own Funds	37.286

Appendix III – OWN FUNDS DISCLOSURE TEMPLATE

At 31 December 2016	Transitional Definition	Full - phased in Definition
	\$'000	\$'000
Common Equity Tier 1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	30.848	30.848
Retained earnings	6.541	6.541
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	-	-
Funds for general banking risk	-	-
Common Equity Tier 1 (CET1) capital before regulatory adjustments	37.389	37.389
Common Equity Tier 1 (CET1) capital: regulatory adjustments	-	-
Intangible assets (net of related tax liability)	-	-
Additional deductions of CET1 Capital due to Article 3 CRR	(103)	(103)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	(103)	(103)
Common Equity Tier 1 (CET1) capital	37.286	37.286
Additional Tier 1 (AT1) capital	-	-
Tier 1 capital (T1 = CET1 + AT1)	37.286	37.286
Total regulatory adjustments to Tier 2 (T2) capital	-	-
Tier 2 (T2) capital	-	-
Total capital (TC = T1 + T2)	37.286	37.286
Total risk weighted assets	46.686	46.686
Capital ratios and buffers		
Common Equity Tier 1	79,86%	79,86%
Tier 1	79,86%	79,86%
Total capital	79,86%	79,86%

Definitions:

The Common Equity Tier 1 (CET1) ratio is the CET1 capital of the Company expressed as a percentage of the total risk weighted assets for covering pillar 1 risks.

The Tier 1 (T1) ratio is the T1 capital of the Company expressed as a percentage of the total risk weighted assets for covering pillar 1 risks.

The Total Capital ratio is the own funds of the Company expressed as a percentage of the total risk weighted assets for covering pillar 1 risks.