Alfa Capital
Holdings (Cyprus) Ltd

ALFA CAPITAL HOLDINGS (CYPRUS) LIMITED

Disclosures in accordance with the Cyprus Securities and Exchange Commission Directive DI144-2007-05 of 2012

As at 31 December 2013

General Notes:

- Alfa Capital Holdings (Cyprus) Limited (hereafter referred to as “ACC” or “the Company”) has prepared the following disclosures.
- The disclosures are based on the audited financial statements of ACC for the year ended 31 December 2013.
- The information contained within the disclosures has been prepared for the purpose of explaining how risks are managed by the Company and to disclose the capital requirements corresponding to these risks, in line with the requirements of the Cyprus Securities and Exchange Commission.
- The disclosures have been reviewed by Senior Management.
- The disclosures have been verified by the Company’s external auditor.
- The Company does not undertake any securitisation activity.
- All figures are stated in US Dollars. Figures are rounded to the nearest thousand except where otherwise stated.

Table of Contents

1 Scope of Application

1.1 Policy Statement

After careful consideration, Senior Management has decided that given the size and complexity of the Company, it is not necessary to produce Pillar 3 disclosures any more frequently than annually. Furthermore, Management feels that making such disclosures available on the Company's website is appropriate.

1.2 Governing Law

The information disclosed below is in accordance with Directive DI144-2007-05 of 2012 for the Capital Requirements of Investment Firms (hereafter referred to as "the Directive") of the Cyprus Securities and Exchange Commission ("CySEC") focusing on Chapter 7 "Disclosure and Market Discipline" and Annex XII "Technical Criteria on Transparency and Disclosure", of Part C.

1.3 Background

ACC is a subsidiary of the Alfa Banking Group. The Alfa Banking Group offers a wide range of products and operates in all sectors of the financial market, including corporate and retail lending, deposits, payment and account services, foreign exchange operations, cash handling services, custody services, investment banking and other ancillary services to corporate and retail customers.

ACC's parent company, ABH Financial Limited, which as of 4 April 2011 is a Cyprus registered company, holds 80.1% of the Company's shares. The remaining 19.9% of the Company's shareholding belongs to OJSC Alfa-Bank.

The Company's principal activities are operations with equities, debt securities and investments, investment of surplus cash into interest earning bonds, deposits, loans and other financial instruments, as well as the provision of financial services to international clients and the Alfa Banking Group.

The Company has a London-based branch, called Alfa Capital Markets ("ACM"). The branch is an extension for corporate finance advisory and underwriting services offered by the Company to the international capital markets, and is regulated by the CySEC and the Financial Conduct Authority of the United Kingdom.

1.4 Solo Results

As at 31 December 2013, the Company did not own any subsidiaries. These disclosures have therefore been prepared on a solo basis.

2 Capital Base

2.1 Regulatory Capital

The Company's regulatory capital base consists of Original Own Funds (Tier 1 capital), which includes share capital, share premium, reserves (excluding revaluation reserves) as well as the profits and losses brought forward as a result of the application of the final profit or loss. Intangible assets (such as computer accounting software) are deducted when deriving the Company's capital base. It is noted that as at 31 December 2013, the Company did not have any hybrid securities, nor did it have any subordinate loan capital or cumulative preferential shares that could be considered Additional Own Funds (Tier 2 capital). None the less the Company's fair value reserve, which arose from the revaluation of the Investments Available for Sale, has in accordance with the requirements of the Directive been considered as Addition Own Funds.

As at 31 December 2013, the Company's share capital consisted of 3 000 000 ordinary shares of EUR 1,71 each, which were issued at a premium. All ordinary shares rank equally and carry one vote.

The table below presents the Company's capital base as at 31 December 2013.

	Year Ended 31/12/2013
Original Own Funds	USD'000
Share Capital	6.017
Share Premium	173.997
Reserves	274.385
Audited Profit for the year	42.545
Original Own Funds	**496.944**
Fair Value Reserve for investments available for sale	132
Additional Own Funds	**132**
Less: Intangible Assets	141
Capital Base	**496.935**

3 Risk and Capital Management

3.1 Responsibility for the management of risks

Risk is an everyday part of the Company's operations and Management recognises that identifying, assessing, monitoring and controlling each type of risk is important for the Company's financial stability, performance and reputation. As such, comprehensive control and governance procedures have been established in order to ensure that the risks faced by the Company are managed carefully, so that an optimum level of risk-return trade off is achieved.

The Company has put in place risk management systems to monitor risks. The systems are able to clearly distinguish positions between the Trading Book and Banking Book so that the regulatory capital charges are properly calculated. The systems have the necessary controls in place to generate prudent and reliable valuation estimates which are provided to Senior Management regularly.

Senior Management within ACC is primarily responsible for managing risks and for ensuring that ACC follows its strategic objectives. In addition to this, support on risk management matters is also provided by the Alfa Bank Moscow, Risk Management department. On an ongoing basis, Senior Management, together with the Risk Manager, will:

- Evaluate the effectiveness of the policies and procedures of the Company which identify, analyse, evaluate, treat and monitor risk during the course of business and escalate any violations to Senior Management.
- Assess the Company's risk appetite and risk bearing capacity.
- Ensure that the Company has sufficient capital and reserves to support its risks.
- Establish prudent methodologies for setting risk limits, ensure that risk exposures stay within these limits, as well as allocate limits where they can be used most profitably and efficiently. In the absence of approved limits, ACC does not undertake any trading activity.
- Meet on a regular basis in order to assess the Company's position relative to the approved risk limits. Risk management within the Company is a dynamic process in the sense that Senior Management will reassess all limits set, as new information is known. Furthermore, it will review the current market conditions and the Company's strategy in order to set forth the business plan for the next period.

3.2 Internal Capital Adequacy Assessment Process

The Company uses the results of its most recent Internal Capital Adequacy Assessment Process ("ICAAP") exercise as a measurement of its internal capital requirements. As part of this exercise, the minimum capital requirements are determined using the Pillar 1 methodology, and subsequently the additional capital required is calculated for those risks which are either partially covered, or not addressed under Pillar 1 at all. It is noted that for the calculation of capital requirements against risks not adequately covered by Pillar 1, as well as for Pillar 2 risks, the "Pillar 1 plus" approach has been adopted by the Company, which involves the calculation of additional capital as an add-on to the regulatory capital.

The Risk Management department, in cooperation with the Accounting department, are responsible for the preparation of the ICAAP document, whilst Senior Management has the overall responsibility of approving the ICAAP document and submitting it to the CySEC.

The process followed for the preparation of the ICAAP document consists of the following steps:

- Identifying risks and assessing the management of those risks.
- Documenting the techniques used for the quantification of the risks identified.
- Calculating the amount of regulatory and internal capital required for each type of risk identified.
- Determining the need for additional capital buffers to ensure the Company has enough capital over a cycle as well as the case of a stress scenario.

4 Capital Requirements

The Company follows the Standardised Approach for the measurement of the Pillar 1 capital requirements for Credit and Market Risk, and the Basic Indicator Approach for the calculation of Operational Risk capital requirements. The Pillar 1 capital requirements of the Company as at 31 December 2013 are shown in the table below:

	Capital Requirements
	USD'000
Credit and Counterparty Credit Risk	82.246
Position risk	137.352
Commodities Risk	231
Foreign Exchange Risk	26.114
Other and Transitional Capital Requirements*	230.486
Operational Risk	6.866
Total	**483.295**

*Refers to capital requirements with regards to large exposures in the Trading Book.

5 Credit and Counterparty Credit Risk

5.1 Definition

Credit Risk is the risk that a counterparty may potentially fail to meet its obligations when they become due. The Company is exposed to Credit Risk arising from the probability that a counterparty will be unable to make payments in full when these are due. The Company identifies and monitors Counterparty Credit Risk, Concentration Risk and Geographical Risk as part of Credit Risk.

5.2 Management of Credit and Counterparty Credit Risk

The management of Credit Risk, including Counterparty Credit Risk, is the primary responsibility of the Risk Management department, with Senior Management assuming a supervisory role in the process. The Risk Management department together with Senior Management are responsible for establishing policies and procedures which identify, analyse, evaluate, treat and monitor risks during the course of business. Management is also responsible for the establishment of limits on the amount of risk accepted in relation to a borrower, or groups of borrowers, as well as to industry sectors.

The exposures to any one borrower, including banks and brokers, is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items. Actual exposures against limits are monitored daily. Exposure to Credit Risk is also managed, in part, by obtaining collaterals and guarantees.

The Risk Management department frequently prepares management reporting information which is sent to the Company's Senior Management. The Senior Management, in close cooperation with the Risk Management department, consistently review the information reported, taking corrective actions to mitigate risk if and when necessary.

The Company has established a number of methodologies and techniques for managing and monitoring Credit Risk and Counterparty Credit Risk. The methodologies are reviewed annually by the Risk Management department and are also updated as and when necessary. Additionally Management ensures, through the ICAAP, that adequate internal capital is assigned to Credit Risk and Counterparty Credit Risk, not adequately covered under the Pillar 1 capital requirements.

The use of a credit assessment framework helps the Risk Management department mitigate such risks by analysing a client's or counterparty's credit quality based on the evaluation of both financial and non-financial information. In addition to this, the Risk Management department also reviews the analysis and appropriateness of the credit ratings issued by external credit rating institutions (where available), both prior to entering into transactions and throughout the life of a transaction, in order to monitor risks and set appropriate limits.

The use of limits for Credit Risk and Counterparty Credit Risk contributes to the effective management of the Company's exposure to such risks. Counterparty exposure limits are also set collectively, for each counterparty type. Utilisation of limits takes the market value of each transaction as well as any potential future fluctuations.

Furthermore, the Company monitors closely portfolio concentration limits, as well as cases where limit utilisation is close to a maximum, such that the impact of new transactions on the concentration within the Company's portfolio is consistent with its risk appetite and portfolio limit structure.

The Company has established a number of other measures in order to mitigate Settlement Risk and indirectly Counterparty Credit Risk. Such measures include performing transactions only on a Delivery Versus Payment ("DVP") settlement basis, or requesting pre-payments or pre-deliveries from clients and counterparties. The Company also performs secured transactions, which are backed by secured loans and collateral.

5.3 Value of Exposures

The Company's financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of available for sale financial assets, financial instruments categorised as at fair value through profit or loss.

Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument, or by a valuation technique which relies only on observable market data.

Sale and repurchase agreements are treated as secured financing transactions. The securities sold are not derecognised nor are they reclassified in the Statement of Financial Position, unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to banks. On the other hand, securities purchased under agreements to resell are recorded as “due from banks” or “loans and advances to customers”, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of the repurchase agreements using the effective interest method.

Securities lent to counterparties for a fixed fee are retained in the financial statements in their original category in the statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss within gains or losses from operations with trading securities. The obligation to return the securities is recorded at fair value in other financial liabilities.

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date that the Company commits to deliver a financial asset. All other purchases are recognised when the Company becomes a party to the contractual provisions of the instrument.

Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency and interest rate options are carried at their fair value. All derivative instruments are carried as assets when the fair value is positive, and as liabilities when the fair value is negative. Changes in fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives).

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Those financial instruments that are traded in an active market, their fair value is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. Those financial instruments that are not traded in an active market are measured at the fair value of a company of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date.

Where external market pricing information is not available valuation techniques such as discounted cash flow models or consideration of financial data of the investees are used to measure the fair value of certain financial instruments.

During the year the Company's derivatives gross positive fair value amounted to USD 154.264K resulting in a final exposure amount of USD 241.706K.

It is noted that during the year the Company entered into credit derivative transactions with a total notional amount of USD 241.500K, which it transacted for its own credit portfolio.

5.4 Past due and Impaired

Past Due

As per IFRS 7, Appendix A "Defined terms", a financial asset is past due when a counterparty has failed to make a payment when contractually due. It is noted that during the year there were no past due balances within trading securities, repurchase receivables, due from banks, loans and advances to customers and other financial assets.

Impairment of financial assets carried at amortised cost

Impairment losses are recognised under profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset, and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Company determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors which the Company considers when determining whether a financial asset is impaired, is its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems.
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information obtained by the Company.
- the borrower considers bankruptcy or a financial reorganisation.
- there is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower.
- the value of collateral significantly decreases due to deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

During the year the Company did not have any impairments with respect to the fair value of its trading securities and repurchase receivables.

5.5 Value Adjustments and Provisions for impaired exposures

It is noted that there were no value adjustments other than provisions for impaired exposures amounting to USD 25.308K, which related solely to impairments of investments in

Companies within the Group, as at 31 December 2013. There were no movements in provisions during the year.

Given the above the Company's exposures before Credit Risk Mitigation ("CRM") as well as the value of provisions and average exposures for the year ended 31 December 2013 are as follows:

	Value of Exposures before Credit Risk Mitigation	Provisions	Average Exposures
Asset Class	**USD'000**		
Institutions	1.722.059	-	1.894.957
Corporates	1.910.540	-	836.114
Retail	244	-	244
Other	246	-	3.581
Total	**3.633.089**	**-**	**2.734.896**

The following tables present a breakdown of the Company's exposures to Credit Risk, based on the requirements of the Directive (Part C, Annex XII "Technical Criteria on Transparency and Disclosure", Part 2, paragraph 6).

5.6 Exposures by significant geographical locations

	Europe	Russia	Ukraine	Other	Grand Total
Asset Class	**USD'000**				
Institutions	1.080.224	635.952	-	5.883	1.722.059
Corporates	1.328.092	249.659	2	332.787	1.910.540
Retail	-	244	-	-	244
Other	246	-	-	-	246
Grand Total	**2.408.562**	**885.855**	**2**	**338.670**	**3.633.089**

5.7 Exposures by residual maturity

	<1 month	1-3 months	3-12 months	1-5 years	Grand Total
Asset Class	**USD'000**				
Institutions	456.483	273.195	633.684	358.697	1.722.059
Corporates	1.486.211	-	332.690	91.639	1.910.540
Retail	244	-	-	-	244
Other	246	-	-	-	246
Grand Total	**1.943.184**	**273.195**	**966.374**	**450.336**	**3.633.089**

5.8 Exposures by significant industries

Asset Class	Banking	Telecom	Other	Grand Total
	USD'000			
Institutions	1.567.328		154.731	1.722.059
Corporates		29.106	1.881.434	1.910.540
Retail			244	244
Other			246	246
Grand Total	**1.567.328**	**29.106**	**2.036.655**	**3.633.089**

It should be noted that the Company's "Other" significant industries include the oil industry as well as Special Purposes industries.

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

The Company has chosen to use Standard & Poor's ratings for all asset classes under the Standardised Approach. The use of Standard & Poor's ratings is in compliance with the requirements of the Directive, and is used consistently for all exposures in a specific asset class. All credit ratings are associated with the credit quality steps prescribed by the Directive. Where there is no credit rating from Standard & Poor's, ratings from Moody's Investor Services are used, and then those of Fitch Rating Services. The Company will continue to use the same approach for its entire portfolio unless there are material differences in the way it performs its business.

	Credit Quality Step						Grand Total
	1	2	3	4	5	Unrated	
Institutions	960.693	-	635.953	-	124.483	930	1.722.059
Corporates	-	-	36.252	-	6.494	1.867.794	1.910.540
Retail	-	-	244	-	-	-	244
Other	-	-	-	-	-	246	246
Total	**960.693**	**-**	**672.449**	**-**	**130.977**	**1.868.971**	**3.633.089**

When calculating the capital requirements for Credit Risk for both on-balance sheet and off-balance sheet positions, the Company assigns risk weights to its exposures based on their exposure type and rating, as prescribed by the Directive.

5.10 Credit Risk Mitigation

Credit risk mitigation is only applied for repurchase and reverse repurchase agreements. With regards to such agreements, the Company always takes on collateral in the form of cash or securities. To ensure that the collateral received is appropriate for the transactions performed, the Company has established a set of criteria, including but not limited to receiving only liquid Tier 1 and Tier 2 exchange traded securities. Additionally the Company assesses the credit quality of repurchase receivables relating to debt trading securities based on the external credit rating of the debt security.

Continuous monitoring of such collateral is performed by the Company's Back Office, which checks that the collateral to be received meets the specified criteria, prior to entering into a repurchase or reverse repurchase transaction.
It is noted that no collateral is received against derivative exposures thus no credit risk mitigation techniques are applied for such exposures.

Based on the collateral received for reverse repurchase and repurchase transactions, the Company's exposure values before and after credit risk mitigation are as follows:

Credit Quality Step	Exposure Values before credit risk mitigation	Exposure Values after credit risk mitigation
	USD'000	USD'000
1	960.693	586.786
2	-	-
3	672.205	380.082
4	-	-
5	130.977	17.407
Unrated	1.869.214	750.087
Total	**3.633.089**	**1.734.362**

It should be noted that the Company does not perform any credit risk mitigation in the form of hedging, and as such it does not apply hedge accounting.

5.11 Counterparty Credit Risk

As previously mentioned, Counterparty Credit Risk is currently managed under Credit Risk. As such, continuous monitoring of Counterparty Credit Risk is carried out; this extends to the monitoring of wrong-way risk as well as the monitoring and establishment of adequate credit reserves.

For calculating its risk weighted exposures for Credit Risk and Counterparty Credit Risk, the Company has decided to follow the Standardised Approach.

5.12 Measurement of Counterparty Credit Risk

The Company has adopted the Mark-to-Market ("MTM") method and the Financial Collateral Comprehensive Method ("FCCM") to calculate the value of the exposures deriving from derivative transactions and repurchase/reverse repurchase transactions, respectively, which give rise to Counterparty Credit Risk.

The MTM method is described in the steps below:

- Step (a): by attaching current market values to contracts, the current replacement cost of all contracts with positive values is obtained.
- Step (b): to obtain a figure for the potential future credit exposure, the notional principal amounts or underlying values are multiplied by the percentages presented under Part C, Annex III, Part 3, table 1 of the Directive.
- Step (c): the sum of the current replacement cost and the potential future credit exposure is the exposure value.

The FCCM requires that haircuts are assigned to the values of the exposure and collateral, in order to arrive at the adjusted exposure and collateral amounts. Haircuts are determined based on the type of exposure and collateral, and are also applied for any foreign currency and maturity mismatches, as per the provisions of Part C, Annex VIII, Part 3 of the Directive. Once the adjusted values of exposures and collaterals are derived, the appropriate risk weight, determined based on the counterparty to the transaction, is assigned to the unsecured part of the exposure.

6 Market Risk

6.1 Definition

Market Risk is defined as the risk of financial loss as a result of changes in market factors which reduce the market value ("MV") of the trading portfolio of financial instruments and foreign currencies. The Company's Market Risk arises from open positions in currency, price and interest rate risk. The Company's Risk Management department manages these risks, as well as liquidity risk.

6.2 Management of Market Risk

Senior Management and the Risk Management department are responsible for:

- Establishing prudent methodologies for setting limits for either Market Risk or Credit Risk to control the exposures of the Company.
- Reviewing all limits at least annually.
- Allocating limits where they can be used most profitably and efficiently.
- Maintaining high standards of Counterparty Credit Risk and Market Price Risk tools analysis.
- Establishing a limits framework for every trading business, and setting out the permitted products and activities, as well as the maximum exposure limits.
- Performing Value at Risk ("VaR") and stress testing calculations, which are two commonly used tools in finance for quantitative risk measurement and management. This allows Management to closely manage the business by ascertaining maximum losses (with given probabilities) as well as the robustness of the business in stressed situations.

In the absence of approved limits, trading activity is not undertaken nor are any new products traded.

The Risk Management department frequently prepares management reporting information which is sent to the Company's Senior Management. The Senior Management, in close cooperation with the Risk Management department, consistently review the information reported, taking corrective actions to mitigate risk if and when necessary.

6.3 Market Risk Management – Trading Book

Market Risk is carefully managed through detailed policies and procedures. Senior Management will undertake an annual review of limits, based on discussions and recommendations received by the Risk Management department. For any proposed changes in limits, the existing limits as well as the new limit proposals are submitted to Senior Management and justifications are provided concerning the reasons for any changes or amendments.

The Risk Management department monitors all trading positions on a daily basis to ensure that all quantitative limits are adhered to. The following limits have been established and it is worth noting that the list below illustrates all the possible risk measures that the Company may apply to mitigate market risks. Depending on market conditions, limits may be revised and increased limit restrictions may be applied.

- **Foreign Exchange Risk:**
    - *Net Open Position against local currency* - This is the net long or short foreign currency position.
    - *Total Net Short Position* - This is the net short position of all currencies.
    - *Net Open Position by currency* - This is the net market value of positions in each currency, expressed in the local currency.
    - *Maximum Maturity* - Maximum maturity of a transaction calculated from deal date.
    - *Counterparty Limits* - Utilization of counterparty limits taking into account the market value of the transactions.
    - *FX Settlement Limits* - This limit captures the settlement risk of FX transactions. It is set in order to control the exposure to a particular counterparty.

- **Market Risk arising from Bond Securities, Bond Futures, Interest Rate Futures, Interest Rate Swaps, Credit Default Swaps:**
    - *Position Limits* - This is the maximum allowable exposure for each specific instrument within a specific portfolio. Different limits may be set for intra-day and overnight positions.
    - *Maximum Holding Period Limit* - The maximum period the trader can hold a position.
    - *Maximum Maturity* - Maximum maturity of the transaction calculated from deal date.

- *Counterparty Exposure Limits* - Limits are set for each counterparty collectively. Utilization of exposure limits takes into account the market value of the deal, as well as the future fluctuation in its value.

- **Market Risk arising from Equity positions:**
  - *Position Limits* - Maximum exposure can be set for a particular portfolio.
  - *VaR, 1 day 99% confidence level* - A category of risk metrics which describe probabilistically the market risk of a trading portfolio.

6.4 Market Risk Management – Banking Book

Equity Price Risk of the Banking Book is managed by establishing limits, and by closely monitoring and controlling adherence to these limits. Detailed policies and procedures exist which are reviewed and updated frequently.

Foreign Exchange Risk is managed on a consolidated basis for both the banking book and the trading book positions using the methods already mentioned above.

6.5 Interest Rate Risk

The Company takes on exposures to the effect of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch on interest rate repricing that may be undertaken.

The table below summarises the Company's exposure to interest rate risk. The table presents the aggregated amounts of the Company's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-interest bearing	Total
	USD'000					
Total financial assets	992.540	102.245	807.945	347.762	62.730	2.313.222
Total financial liabilities	1.054.479	80.971	545.869	125.850	-	1.807.169
Net interest sensitivity gap	**(61.939)**	**21.274**	**262.076**	**221.912**	**62.730**	**506.053**

Trading securities and repurchase receivables relating to debt trading securities are actively traded by the Company and therefore constantly repriced. The entire balance of trading securities and repurchase receivables for the purposes of the above analysis is allocated in caption “demand and less than 1 month”.

As at 31 December 2013, if interest rates at that date had been 100 basis points lower with all other variables held constant, profit for the year would have been USD 680Khigher, whereas if interest rates had been 100 basis points higher, profit for the year would have been USD 680K lower.

6.6 Market Risk Measurement

The minimum capital requirement with respect to Market Risk is calculated using the Standardised Approach. Under the Standardised Approach, the Market Risk capital requirements are calculated with respect to Position Risk, Commodities Risk and Foreign Exchange Risk.

As at 31 December 2013 the consolidated capital requirements are as follows:

Market Risk			
Position Risk		**USD'000**	**USD'000**
Traded Debt Instruments			
	Specific Risk	115.317	
	General Risk	14.239	**129.556**
Equity Risk			
	Specific Risk	3.898	
	General Risk	3.898	**7.796**
Commodities Risk			**231**
Foreign Exchange Risk			**26.114**
Other and Transitional Capital Requirements			**230.486**
Total Market Risk Capital Requirement			**394.183**

6.7 Exposures in Equity securities not included in the Trading Book

Under this category the Company includes equity investments in Group Companies (subsidiaries or other), investments in associates, and financial instruments bought which are classified under investments available for sale.

Investments in Companies within the Group

During the year 2013, the Company had the following investments in companies within the Alfa Banking Group which were classified as Available for Sale Financial Assets:

	31 December 2013
Group Companies	USD'000
OJSC Alfa-Bank (Russian Federation, 0.1136%)	27.964
Other	104
Impairments	(25.308)
Total Investments	**2.760**

The figures quoted above are carried at cost.

The provision for impairment in the amount of USD 25.308K was estimated by Management on the basis of considering financial information of the investees. It is noted that none of the investments in the Group relate to exchange-traded equities and thus a comparison with market prices has not been provided.

Investments in companies outside the Group

During the year the Company purchased a participating share in an investment fund which is domiciled in Russia. The investment has been classified as Available for Sale in the amount of USD 18.479K.

It is noted that during the year there were no liquidations or sales of such investments.

7 Operational Risk

7.1 Introduction

Operational Risk is defined as the risk of direct and indirect loss resulting from inadequate or failed processes, people and systems from external events. For the purpose of managing Operational Risk, the following risks are also managed:

- Business Process risks
- Technological risks
- Personnel risks
- Risks of unforeseen situations and external events.

7.2 Management of Operational Risk

Operational Risk is inherent to all of the Company's operations. The Company's Senior Management and its Risk Management department successfully manage and control Operational Risk by identifying, measuring, monitoring, reporting, controlling and mitigating Operational Risks. Specifically, the Risk Management department is responsible for:

- Establishing an Operational Risk policy which outlines the Company's approach to Operational Risk management, determines the main directions of the Operational Risk management and identifies the responsibilities between the Company's departments in relation to Operational Risk management.
- Establishing procedures for Operational Risk and operational loss data reporting.
- Promoting a culture where Operational Risk is identified, monitored and controlled by all of the Company's employees.

The Risk Management department frequently prepares management reporting information which is sent to the Company's Senior Management. The Senior Management, in close cooperation with the Risk Management department, consistently reviews the information reported, taking corrective actions to mitigate risk if and when necessary.

7.3 Assessment of Operational Risk

The Company adopts the Basic Indicator Approach (“BIA”) to Operational Risk, the relevant indicator being the three year average of the sum of net income. The three year average is calculated on the basis of the last three twelve-monthly observations at the end of the financial year. Under the BIA, capital is held to support Operational Risk for the business at the rate of 15%.

The Company’s Operational Risk capital requirement arose to USD 6.866K.

8 Remuneration Policy and Practices

The Company has a Remuneration Policy which complies with the requirements and regulations of the Cyprus Securities and Exchange Commission according to the provisions of the Directive. Due to its size and nature of its operations, the Company has not set up a Remuneration Committee and instead the responsibilities of the Remuneration Committee are performed by the Board of Directors. In order to formulate the Company's Remuneration Policy, the Company has sourced the assistance of an external consultant.

The Remuneration Policy forms an integral part of the Company's corporate governance practice and is developed in accordance with its operational model and business strategy. Its main aim is to align individual employees' objectives with the Company's long-term business objectives and strategy, as well as the long-term value creation for shareholders. Except where otherwise stated, the disclosures presented below apply to top management executives, risk takers, individuals whose total remuneration takes them into the same remuneration level as the aforementioned categories, and individuals whose professional activities have a significant impact on the Company's risk profile.

The Company has established a competitive compensation framework in order to attract, engage and retain its employees. Its basic principles are:

- To promote sound and effective risk management and not encourage risk-taking that exceeds the level tolerated by the Company;
- To align compensation with the business strategy, objectives, values and long-term interests of the Company and adopt measures which avoid conflicts of interest.

The Company does not provide variable remuneration to employees. It is noted that as at 31 December 2013, there was no outstanding deferred remuneration and no share options were offered. Furthermore, there were no sign-on or severance payments during the year.

The only non-cash benefit which the Company provides to its employees is health insurance.

The amount of remuneration is fixed in the employment agreement of each employee and it reflects the educational level, experience, accountability, position evaluation in comparison with peers, and the position's functional requirements. The Company has developed fixed remuneration ranges which differ among hierarchical levels and nature of business. Ranges are reviewed annually taking into consideration market trends and current legal requirements.

Apart from promotions, which may be set strictly on an individual basis, there is no link between the sales results of an employee and his/her remuneration. Individual increase proposals are also based on market data.

Sales operations in Brokerage services are based on the economic profile of each client. Transactions performed are monitored for their correspondence to the client's profile or investment strategy on a regular basis by the Risk Management and Compliance function. Thus, the remuneration practices of the Company cannot affect or give an incentive to an employee for a potential mis-selling.

The provisions of the Directive require that the Company discloses to the public information regarding the remuneration of those categories of staff whose professional activities have a material impact on the risk profile of the Company. The individuals that may be considered as having an effect on the Company's risk profile include Front Office staff, the members of the Investment Committee, as well as the Board of Directors.

It is noted that the Company's Investment Committee assumes the primary responsibility for the undertaking of risk as it is responsible on an ongoing basis for implementing a business and risk strategy in line with the risk profile of the Company, as this is defined by the Board of Directors.

The senior management and members of staff whose actions have a material impact on the risk profile of the Company are 12 and their combined remuneration, which is fixed, is USD 1.223K.