Alfa Capital
Holdings (Cyprus) Ltd

ALFA CAPITAL HOLDINGS (CYPRUS) LIMITED

Pillar III Disclosures in accordance with Capital Requirements Regulation (EU) No. 575/2013

As at 31 December 2017

GENERAL NOTES

- Alfa Capital Holdings (Cyprus) Limited (hereafter referred to as "ACC" or "the Company") has prepared these disclosures.

- The disclosures are based on the audited financial statements of ACC for the year ended 31 December 2017.

- The information contained within these disclosures is presented for the purpose of explaining how risks are managed by the Company and to disclose the own funds requirements corresponding to these risks, in line with "Specific publication requirements" as stipulated in paragraph 32 of Section 4 of Part II ("Supervisory measures and powers") of the Cyprus Securities and Exchange Commission (hereinafter "CySEC") Directives DI144-2014-14 and DI144-2014-14(A), and the requirements of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on the prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (the "CRR" or the "Regulation"). The disclosures have been reviewed by Senior Management. The disclosures have been verified by the Company's external auditor.

- Where the Disclosures do not convey the risk profile of the Company, the Company shall publicly disclose the information necessary in addition to that required in accordance with Article 431(1) of the Regulation. However, it shall only be required to disclose information which is material and not proprietary or confidential in accordance with Article 432 of the Regulation and the Pillar III Disclosures Policy.

- These disclosures include, to a large extent, tables and disclosures required in line with the EBA/GL/2016/11, version 2* - "Final Report on the Guidelines on Disclosure Requirements under Part Eight of Regulation (EU) No. 575/2013" (hereafter the "EBA Guidelines") which are now in force. The EBA Guidelines constitute an own-initiative guideline to ensure the harmonized and timely implementation of the new Basel framework in the European Union. In this regard, the Guidelines do not supersede or change the substance of the regulatory disclosures regarding the requirements defined in Part Eight of the Regulation, but instead provide guidance on the presentation of the disclosures by introducing specific guidance and template formats. As such certain Pillar III disclosures follow a fixed format, as defined by the EBA, including column or row labelling, whereas other disclosures are more flexible and may be modified, to a certain degree, to present the most relevant information. All rows and columns which are not applicable to the Company's activities or non-material are not included in these disclosures ("Pillar III Disclosures").

- The disclosure will be published on the Company's website: https://alfacapital.com.cy/en/about-us/all-documents/.

- All figures are stated in US Dollars. Figures are rounded to the nearest thousand except where otherwise stated. Figures in parenthesis, represent negative numbers.

- The Company does not undertake any securitisation activity nor does it have any asset encumbrances.

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Specific References to EBA Guidelines

Table	Compliance reference	Section
EU LI1	Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories	N/A
EU LI2	Main sources of differences between regulatory exposure amounts and carrying values in Financial Statements	N/A
EU LI3	Outline of the differences in the scopes of consolidation (entity by entity)	N/A
EU OV1	Overview of RWAs	Section 5
EU INS1	Non-deducted participations in insurance undertakings	N/A
EU CRB-B	Total and average net amount of exposures	Section 6.6
EU CRB-C	Geographical breakdown of exposures	Section 6.7
EU CRB-D	Concentration of exposures by industry or counterparty types	Section 6.9
EU CRB-E	Maturity of exposures	Section 6.8
EU CR1-A	Credit quality of exposures by exposure class and instrument	N/A
EU CR1-B	Credit quality of exposures by industry of counterparty types	N/A
EU CR1-C	Credit quality of exposures by geography	N/A
EU CR1-D	Ageing of past-due exposures	N/A
EU CR1-E	Non-performing and forborne exposures	N/A
EU CR2-A	Changes in the stock of general and specific risk adjustments	N/A
EU CR2-B	Changes in the stock of defaulted and impaired loans and debt securities	N/A
EU CR3	CRM techniques – Overview	Section 6.11
EU CR4	Standardised approach – Credit risk exposure and CRM effects	Section 6.11
EU CR5	Standardised approach	Section 6.10
EU CCR1	Analysis of CCR exposure by approach	Section 6.12
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EU CCR5-A	Impact of netting and collateral held on exposure values	Section 6.13
EU CCR5-B	Composition of collateral for exposures to CCR	Section 6.13
EU MR1	Market risk under the standardised approach	Section 7.5

Specific references to articles in the Regulation

CRR Ref.	High-level summary	Compliance reference
Scope of disclosure requirements		
431(1)	Requirement to publish Pillar III disclosures	Section 1.1
431(2)	Disclosure of Operational Risk information	Section 8
431(3)	Institutions must have a policy covering frequency of disclosures. Their verification, comprehensiveness and overall appropriateness.	Section 1.1
431(4)	Explanation of ratings decisions to SMEs upon request	N/A
Non-material, proprietary or confidential information		
432	Non-material, proprietary or confidential information	Compliance with this provision is covered through the Pillar III Disclosures
Frequency of disclosure		
433	Frequency of disclosure - Disclosures must be published once a year at a minimum	Section 1.1
Means of disclosures		
434 (1)	Provide disclosures in an appropriate medium	General Notes, Section 1.1
434 (2)	Equivalent disclosures made under other requirements (i.e. accounting) can be used to satisfy Pillar III if appropriate	N/A – Entirely covered with this document
Risk management objectives and policies		
435 (1) (a) 435 (1) (b) 435 (1) (c) 435 (1) (d)	Disclosure of information on strategies and processes, organisational structure of each risk management function, reporting and measurement systems and risk mitigation/hedging policies.	Sections 4, 6, 7, 8
435 (1) (e)	Declaration approved by the BoD on adequacy of risk management arrangements	Section 4.11
435 (1) (f)	Concise risk statement approved by the BoD describing the Company's overall risk profile associated with the business strategy	Section 4.8
435 (2)	Information, including regular, at least annual updates, regarding governance arrangements:	Section 4.9
435 (2) (a)	Number of directorships held by members of the BoD	Section 4.9
435 (2) (b)	Recruitment policy of BoD members, their experience and expertise.	Section 4.9

CRR Ref.	High-level summary	Compliance reference
435 (2) (c)	Policy on diversity of BoD members, its objectives and the extent to which these objectives and targets have been achieved	Section 4.9
435 (2) (d)	Disclosure of whether a separate risk committee is in place, and number of meetings in the year	Section 4.2
435 (2) (e)	Description of information flow on risk to BoD	Sections 4, 6, 7, 8
Scope of application		
436 (a)	Name of institution	Section 1
436 (b)	Outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities that are fully consolidated, proportionally consolidated, deducted from own funds or neither consolidated nor deducted	Section 1.5
436 (c)	Any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries	Section 1.5
436 (d)	The aggregate amount by which the actual own funds are less than the required minimum in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries	N/A
436 (e)	Use of articles on derogations from (a) prudential requirements or (b) liquidity requirements for individual subsidiaries/entities	N/A
Own funds		
437 (1)	Information regarding the Company's Own Funds	Section 2
437 (2)	EBA shall develop implementation standards for article above	Appendices 1 and 2
Capital requirements		
438 (a)	Summary of institution's approach to assessing adequacy of capital levels	Section 4.10
438 (b)	Result of ICAAP on demand from competent authority	No such request received
438 (c)	Credit Risk Capital requirement amounts per Standardised approach exposure class (8% of risk weighted exposure)	Section 6
438 (d)	Capital requirements amounts for credit risk for each Internal Ratings Based approach exposure class	N/A
438 (e)	Capital requirements amounts for market risk or settlement risk, or large exposures where they exceed limits	Section 7
438 (f)	Capital requirement amounts for operational risk, separately for the basic indicator approach, the Standardised approach, and the advanced measurement approaches as applicable	Section 8

CRR Ref.	High-level summary	Compliance reference
Exposure to counterparty credit risk (CCR)		
439 (a)	Information of the methodology used to assign internal capital and credit limits for counterparty credit exposures	Section 6
439 (b)	Discussion of policies for securing collateral and establishing credit reserves	Section 6
439 (c)	Discussion of policies as regards wrong-way risk exposures	N/A
439 (d)	Discussion of the impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating	N/A
439 (e)	Gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposures	Section 6.13
439 (f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods as applicable	Section 6.13
439 (g)	Notional value of credit derivative hedges and current credit exposure by types of credit exposure	N/A
439 (h)	Notional amounts of credit derivative transactions for own credit, intermediation, bought and sold, by product type	N/A
439 (i)	The estimation of alpha (“α”) if the institution has received the permission of the competent authorities to estimate α	N/A
Capital Buffers		
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440 (1) (b)	Amount of the institution specific countercyclical buffer	Section 3
440 (2)	EBA issue the Regulatory Technical Standards on countercyclical capital buffer	Section 3
Indicators of global systemic importance		
441	Indicators of global systemic importance	N/A
Credit risk adjustments		
442	Information regarding the institution's exposure to credit risk and dilution risk	Section 6.5
Unencumbered assets		
443	Disclosures on unencumbered assets	N/A
Use of ECAIs		
444 (a)	Names of the nominated ECAIs used in the calculation of Standardised approach RWAs, and reasons for any changes	Section 6.10
444 (b)	Exposure classes associated with each ECAI.	Section 6.10
444 (c)	Description of the process used to transfer the issuer and issue credit assessments onto items in the Banking book	Section 6.10

CRR Ref.	High-level summary	Compliance reference
444 (d)	Mapping of external rating to credit quality steps	Section 6.10
444 (e)	Exposure values pre-credit risk mitigation and post-credit risk mitigation, by credit quality step	Section 6.10
Exposure to market risk		
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk	Section 7
Operational risk		
446	Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and external factors considered	Section 8
Exposure in equities in the Banking book		
447	Information on exposure in equities in the Banking book, including differentiation between exposures based on their objectives and overview of the accounting techniques and valuation methodologies used, recorded at fair value, and actual prices of exchange traded equity where it is materially different from fair value, types, nature and amounts of the relevant classes of equity exposures, cumulative realised gains and losses on sales in the period and Total unrealised gains or losses, latent revaluation gains or losses and amounts included in Tier 1 capital	Section 7.6
Exposure to interest rate risk on positions in the Banking book		
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448 (b)	Variation in earnings, economic value, or other measures used from upward and downward shocks to interest rates, by currency	Section 7.4
Exposure to securitisation positions		
449	Exposure to securitisation positions	N/A
Remuneration disclosures		
450	Remuneration policy	Section 9
Leverage		
451 (1)	Leverage ratio and analysis of total exposure measure	Section 10
451 (2)	EBA developed implementation standards for points above	Section 10
Use of the IRB Approach to credit risk		
452	Use of the IRB Approach to credit risk	N/A
Use of credit risk mitigation techniques		
453 (a)	Policies and processes, and an indication of the extent to which the Company makes use of on-balance sheet and off-balance sheet netting	Section 6.11
453 (b)	Policies and processes for collateral valuation and management	Section 6.11

CRR Ref.	High-level summary	Compliance reference
453 (c)	Description of types of collateral used by the Bank	Section 6.11
453 (d)	Types of guarantor and credit derivative counterparty, and their creditworthiness	Section 6.11
453 (e)	Information about market or credit risk concentrations within the credit mitigation taken	Section 6.11
453 (f)	For exposures under either the Standardised or the Foundation IRB approach, disclosure of the exposure covered by eligible financial collateral and other eligible collateral	Section 6.11
453 (g)	For exposures under either the Standardised or Foundation IRB approach, disclosure of the exposure covered by guarantees or credit derivatives	N/A
Use of the Advanced Measurement Approaches to operational risk		
454	Description of the use of insurance or other risk transfer mechanisms for the purpose of mitigating operational risk	N/A
Use of Internal Market Risk Models		
455	Use of Internal Market Risk Models	N/A

1 Introduction

1.1 Policy Statement

In accordance with Article 431 and Article 433 of the European Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (the “CRR” or the “Regulation”), Alfa Capital Holdings (Cyprus) Limited has an obligation to publicly disclose certain information in relation to its capital adequacy at least on an annual basis. The said disclosures are referred to as the “Pillar III Disclosures”. The Pillar III Disclosures focus on transparency, the disclosure of information and market discipline, and set out the internal controls and procedures for disclosure of such information. In particular they contain general information in relation to the Company’s policies and procedures for managing risks and quantitative information in relation to remuneration, own funds and Pillar I capital adequacy calculations.

The Company has adopted a formal policy (the “Pillar III Disclosures Policy”) to comply with the requirements of Parts Eight and Ten of the Regulation. The Pillar III Disclosures Policy describes the Company’s process for assessing the appropriateness of its Pillar III Disclosures, including their verification and frequency, and its policy for assessing whether its Disclosures convey its risk profile comprehensively to market participants.

After careful consideration, the Management Body and Senior Management (jointly the “Management”) have decided that given the size and complexity of the Company, it is not necessary to produce Pillar III Disclosures any more frequently than annually. Furthermore, Management feels that making such disclosures available on the Company’s website is appropriate.

For assessing the appropriateness of the Company’s Pillar III Disclosures, the Company appoints its external auditors to express an independent conclusion in relation to the fair presentation of the Disclosures, in all material respects, in accordance with the requirements of the Regulation.

The Pillar III Disclosures document and the independent auditors’ verification report are submitted to the CySEC the latest within five months from the end of each financial year. The Pillar III Disclosures document will be uploaded to the Company’s website upon receipt of the external auditors’ independent conclusion.

1.2 Regulatory Framework

The information disclosed below is in accordance with the Regulation focusing on Part Eight “Disclosures by Institutions” and Part Ten, Title I “Transitional Provisions”, as well as with the EBA Guidelines.

1.3 Company Information

ACC is part 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 institutional, corporate and retail customers.

The Company is owned by ABH Financial Limited and Joint Stock Company “Alfa-Bank” (AO “Alfa-Bank”), a subsidiary of ABH Financial Limited. ABH Financial Limited and its subsidiaries including AO “Alfa-Bank” form the Alfa Banking Group (the "Group"). ACC’s parent company, ABH Financial Limited, which as of 4 April 2011 is a Cyprus registered company, holds 79.9% of the Company’s shares. The remaining 20.1% of the Company’s shareholding belongs to AO “Alfa-Bank”.

The Company's principal activities are operations with financial instruments such as debt and equity securities as well as derivatives on securities or/and forex, and structured products and the provision of financial services to international clients and the Group. In addition, the Company provides brokerage and custody services and offers forex internet trading services including operations with precious metals and contracts for difference, online currency exchange and trading on the forex markets, under the brand "Alfa Forex".

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 Services Authority of the United Kingdom.

1.4 Organisational Structure

The Company's organisational structure as at 31 December 2017 is presented below:

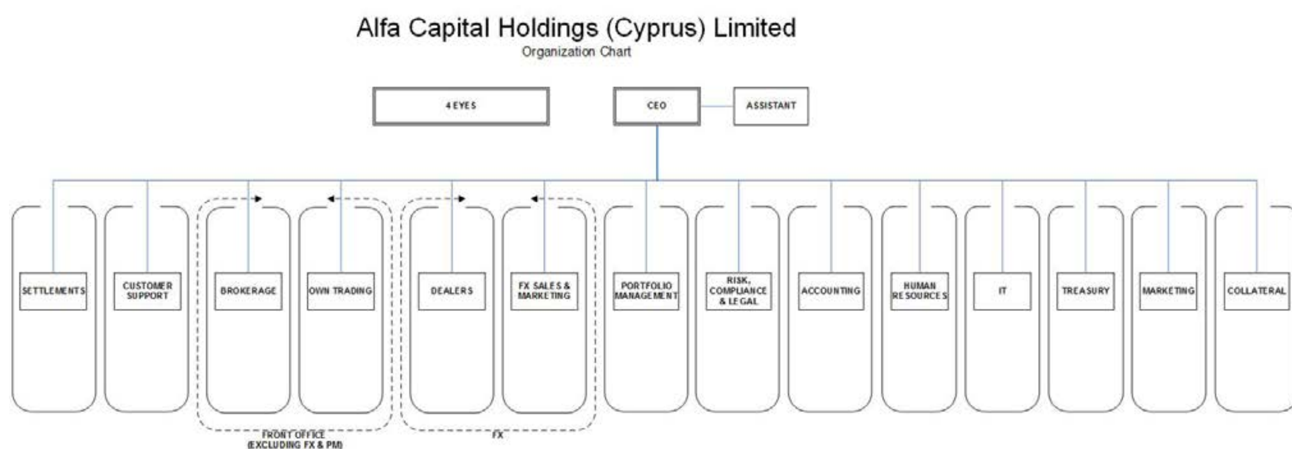

Figure 1: Organisational Structure

1.5 Scope of Application

As at 31 December 2017, the Company did not own any subsidiaries. These disclosures have therefore been prepared on a solo basis.

The Company does not foresee any material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities to its parent.

2 Own Funds

The Company's regulatory capital base consists of Common Equity Tier 1 ("CET1"), which includes share capital, share premium, retained earnings, other reserves, and other comprehensive income ("OCI"). From CET1, the Company deducts its intangible assets and the Investors Compensation Fund contribution.

As at 31 December 2017, the Company's share capital consisted of 3.000.000 ordinary shares of EUR 1,71 each, which was issued at a premium. All ordinary shares rank equally and carry one vote. In December 2016, the Company waived its right for USD 29.770k for a receivable amount from a subsidiary of ABH Financial Limited. The Company recorded this transaction as distribution to shareholders directly in equity. The main features of the Company's capital instruments are presented in Appendix 1.

In line with Commission Implementing Regulation (EU) No. 1423/2013 of 20 December 2013 ("the Regulation 1423/2013") and specifically Article 2, the Company has applied the methodology referred to in Annex I of Regulation 1423/2013 to provide a reconciliation of the own funds items to the audited financial statements. The table below provides the results of the application of the said methodology:

Own Funds reconciliation	USD'000
As per Balance Sheet	
Share Capital	6.017
Share Premium	173.997
Retained Earnings (includes current year profit)	502.716
Fair value reserve available for sale	–
Total Equity as per Balance Sheet	**682.730**
Intangible Assets	(1.483)
Investors Compensation Fund contribution	(74)
Capital Base as per Regulatory Reporting Requirements	**681.173**

Table 1: *Own Funds reconciliation*

In line with Article 492(3) of the Regulation, as well as Article 5 of Regulation 1423/2013, the table below presents the transitional and fully phased-in own funds:

Own Fund Element	Based on Transitional Provisions	Based on fully phased-in provisions
31/12/2017	USD'000	USD'000
Share Capital	6.017	6.017
Share Premium	173.997	173.997
Retained Earnings brought forward	440.204	440.204
Accumulated other comprehensive income	–	–
Profit for the year after dividend distribution	62.512	62.512
Less Intangible Assets	(1.483)	(1.483)
Less Investors Compensation Fund	(74)	(74)
Common Equity Tier 1 Capital	**681.173**	**681.173**
Additional Tier 1	–	–

Own Fund Element	Based on Transitional Provisions	Based on fully phased-in provisions
Total Tier 1 Capital	**681.173**	**681.173**
Tier 2	–	–
Total Capital	**681.173**	**681.173**

***Table 2**: Own Funds*

It is noted that as the Company did not have any Additional Tier 1 capital, the transitional provisions in relation to the deduction of intangible assets were not applied. Instead the full amount of intangible assets is deducted from CET1.

The table below illustrates the Company's CET1 capital, Tier 1 and Total Capital against the minimum requirements set out by Article 92(3) and Article 465 of the Regulation and paragraph 20 of Directive DI144-2014-15 on the discretions of the CySEC arising from the Regulation:

	Company's ratio	As per Regulation EU 575/2013, including capital buffers[1]
CET1 ratio	28,35%	6,76%
Tier 1 ratio	28,35%	8,26%
Total Capital ratio	28,35%	10,26%

***Table 3**: Capital Adequacy Ratios*

The Company did not have any instruments that qualified as CET1 instruments, Additional Tier 1 instruments and Tier 2 instruments by virtue of applying Article 484 of the Regulation on grandfathering. The analytical Own Funds disclosure template as well as the main features of the Common Equity Tier 1, Tier 1 and Tier 2 instruments can be found in Appendix 2.

[1] As at the end of 2017, a capital conservation buffer of 1,25%, O-SII capital buffer of 1,00% and countercyclical capital buffer of 0,0125% were added to the capital ratios.

3 Capital Buffers

In addition to the own funds requirements that need to be maintained, a capital conservation buffer ("CCB") and a countercyclical capital buffer ("CCyB") should be maintained to ensure that the Company accumulates, during periods of economic growth, sufficient capital to absorb losses in stressed periods.

In addition to the CCB and the CCyB, the other systematically important institutions buffer ("O-SII"), is also maintained in order to prevent and mitigate long-term non-cyclical systemic or macro-prudential risks. As at the reference date, the Company was subject to minimum capital requirements of 10,26%, comprising of the following buffers, which are over and above the minimum total capital requirement of 8%:

- Capital conservation buffer: 1,25%
- Countercyclical capital buffer: ca. 0,0125%
- O-SII capital buffer: 1,00%

In line with Article 440 of the Regulation, the Company is required to disclose the key elements of the calculation of its countercyclical buffer rate, comprising the geographical distribution of its relevant credit exposures and the final amount of its institution-specific countercyclical buffer rate. As set out in paragraph 53(1) of Directive DI144-14-14, an institution-specific countercyclical buffer is calculated as the product of the Company's total risk exposure amount, in accordance with Article 92(3) of the Regulation, and the weighted average of the countercyclical buffer rates, identified based on the countries where the relevant credit exposure is located.

The table below presents the institution-specific countercyclical buffer:

Amount of institution-specific countercyclical buffer – 31/12/2017	
Total risk exposure amount (USD'000)	2.403.065
Institution specific countercyclical buffer rate (%)	0,0125%
Institution specific countercyclical buffer requirement (USD'000)	300

***Table 4**: Amount of institution-specific countercyclical buffer*

As per the provisions laid down in Commission Delegated Regulation (EU) No. 1152/2014, the distribution by country of relevant credit exposure is as follows:

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer									
Breakdown by country	General credit exposure	Trading book exposure	Securitisation exposure	Own funds requirements					
	Exposure value for SA	Sum of long and short positions	Exposure value SA	of which: General Credit exposures	of which: Trading book exposures	of which: Securitisation exposures	Total	Own funds requirement weights	Countercyclical Capital Buffer rate
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	%	%
Abu Dhabi	100	–	–	8	–	–	8	0,00	0,00%
Angola	–	3	–	–	–	–	–	–	0,00%
Argentina	–	16	–	–	2	–	2	0,00	0,00%
Australia	–	–	–	–	–	–	–	–	0,00%
Austria	–	225	–	–	18	–	18	0,00	0,00%
Azerbaijan	–	7	–	–	1	–	1	0,00	0,00%
Bahrain	–	11	–	–	1	–	1	0,00	0,00%
Belarus	–	38	–	–	3	–	3	0,00	0,00%
Bermuda	8.568	15.249	–	685	1.220	–	1.905	0,03	0,00%
British Virgin Islands	17.334	–	–	1.387	–	–	1.387	0,02	0,00%
Canada	1.046	–	–	84	–	–	84	0,00	0,00%
Cayman Islands	4	–	–	–	–	–	–	–	0,00%
Cyprus	92.389	1.113	–	7.385	89	–	7.474	0,10	0,00%
Czech Republic	15	–	–	1	–	–	1	0,00	0,00%
Denmark	–	–	–	–	–	–	–	–	0,00%
France	–	10	–	–	1	–	1	0,00	0,00%
Georgia	–	18	–	–	2	–	2	0,00	0,00%
Germany	–	–	–	–	–	–	–	–	0,00%
Guernsey	–	–	–	–	–	–	–	–	0,00%
Hong Kong	8.767	–	–	701	–	–	701	0,01	1,25%

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer									
Breakdown by country	General credit exposure	Trading book exposure	Securitisation exposure	Own funds requirements					
	Exposure value for SA	Sum of long and short positions	Exposure value SA	of which: General Credit exposures	of which: Trading book exposures	of which: Securitisation exposures	Total	Own funds requirement weights	Countercyclical Capital Buffer rate
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	%	%
Ireland	–	152.733	–	–	12.219	–	12.219	0,17	0,00%
Italy	–	144	–	–	11	–	11	0,00	0,00%
Jersey	–	7	–	–	1	–	1	0,00	0,00%
Luxembourg	–	136.356	–	–	12.188	–	12.188	0,17	0,00%
Malaysia	–	4	–	–	–	–	–	–	0,00%
Mauritius	–	3	–	–	–	–	–	–	0,00%
Mexico	–	493	–	–	59	–	59	0,00	0,00%
Netherlands	–	1.927	–	–	32	–	32	0,00	0,00%
Nigeria	–	3	–	–	–	–	–	–	0,00%
Russia	356.252	74.605	–	28.472	5.823	–	34.295	0,49	0,00%
Seychelles	164	–	–	13	–	–	13	0,00	0,00%
South Africa	–	5	–	–	–	–	–	–	0,00%
Sweden	–	–	–	–	–	–	–	–	1,50%
Switzerland	7	–	–	1	–	–	1	0,00	0,00%
Tajikistan	–	16	–	–	1	–	1	0,00	0,00%
Turkey	–	64	–	–	5	–	5	0,00	0,00%
Ukraine	411	372	–	49	30	–	79	0,00	0,00%
United Kingdom	9.441	22	–	755	2	–	757	0,01	0,00%
United States	–	1.581	–	–	126	–	126	0,00	0,00%
Venezuela	–	46	–	–	4	–	4	0,00	0,00%
Total	**494.498**	**385.071**	**–**	**39.541**	**31.838**	**–**	**71.379**	**1,00**	

***Table 5**: Geographical distribution of credit exposures relevant to the calculation of CCyB*

4 Risk and Capital Management

4.1 Risk Management Framework

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's risk management framework aims to create, implement and sustain adequate policies and procedures designed to identify and manage the risks assumed by the Company. The risk management framework of the Company is based on the organisational and operational model, risk governance and risk culture, and has been developed to ensure that the level of capital maintained is in line with the risk appetite set by the Board of Directors ("BoD" or the "Board"). The main aim of the risk management framework is to ensure that the Company's capital is adequate to absorb any losses and risks emanating from the Company's operations.

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

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 regularly provided to Senior Management and the Risk Committee whenever requested.

With regards to risk monitoring procedures, the CRD monitors on a daily basis whether internal policies, procedures and limits set are followed by all departments. In case of violations, the Head of CRD and/or risk control officer immediately inform the relevant department heads of the violation and the actions that should be performed to rectify the situation.

4.2 Risk Organisation

The Company's Risk Function has been set up in such a manner, so as to enable appropriate risk management. The Head of the Risk Function, and when necessary the risk officer, meet with the Company's Chief Executive Officer ("CEO") to discuss any outstanding / significant matters. The Board of Directors is also updated on a regular basis, and at least on a quarterly basis, about any risk management issues and the Company's capital adequacy and large exposures positions.

Furthermore, the Company has set up a separate Risk Committee ("RC"), which meets as and when required. During 2017, the RC held eight meetings, discussing areas, including but not limited to, amendments to the Company's policies, the introduction of new products and changes to risk levels.

Since April 2017, the Risk Function comprises of two individuals, the Head of CRD and the Risk Control Officer. The Company's Senior Risk Officer resigned from his position on the 3rd of March 2017 and since then, his duties and responsibilities were delegated to the Head of the CRD and to the risk control officer.

During the BoD last meeting in December 2017, a risk governance plan was approved which plans for the establishment of two new Risk Bodies:

- **Credit risk body:** It will temporarily consist of the CEO, Chief Financial Officer ("CFO"), Head of CRD and Head of Forex. This body will be meeting on a regular basis for matters related to credit risk and provide proposals to the RC.

- **Market & operation risk body**: It will consist of the CEO, CFO, Head of CRD and Head of Forex. This body will be meeting on a regular basis to discuss and propose issues relating to market and operational risk. After the restructuring of the CRD, the Head of Forex and Head of Trading will be replaced with the Chief Risk Officer, Credit Risk Officer and Market Risk Officer.

4.3 Risk Governance

The Company's risk governance is based on the three lines of defence model. The three lines of defence model provides a simple and effective way to enhance communications on risk management and control by clarifying roles and duties.

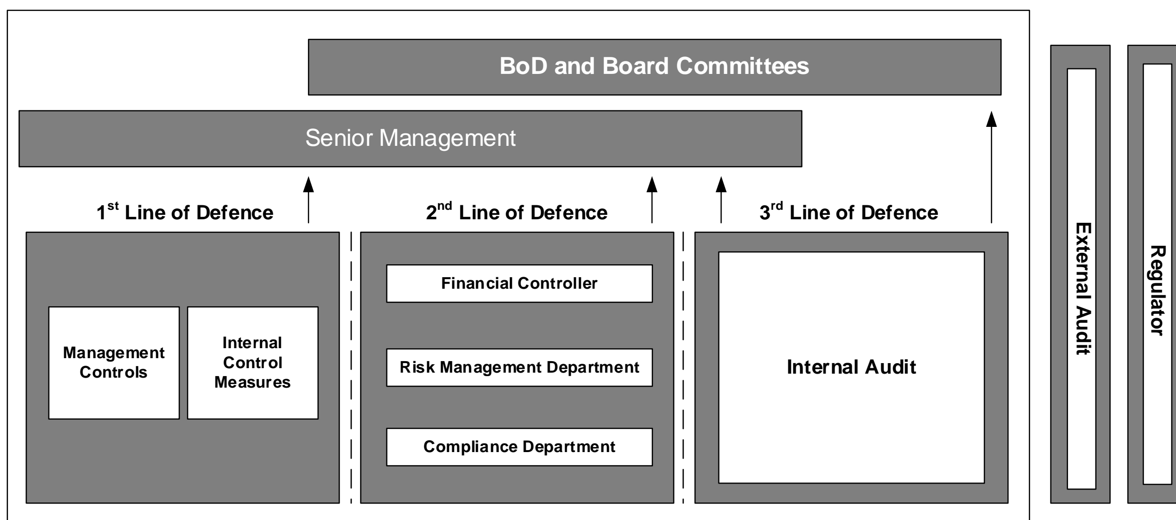

Figure 2: *Three lines of defence*

The first line of defense comprises of the departments interacting with the clients and those persons owning the Company's risks, including to the extent applicable the Board of Directors and Senior Management. As such, the first line of defense includes management controls and internal control measures necessary to counteract the risk taking activities of the first line of defense.

The second line of defense lies with the CRD which provides the policies, procedures, tools and methodology that should be followed in terms of risk management and is responsible for promoting risk awareness to Management and staff. The CRD reports to the BoD about any issues relating to risk management, and their comments and recommendations are communicated to the CySEC on an annual basis.

The third line of defense, lies with the Internal Audit function which assesses the efficiency and effectiveness of internal policies and procedures, the reliability and integrity of reporting processes, the Company's compliance with laws, regulations, directives, internal policies and procedures and reports to the Company's BoD. Their findings and recommendations are communicated to the CySEC on an annual basis. In addition, the Internal Audit is responsible, on an annual basis, for the independent review of the risk management processes and of the work done by the CRD. This function has been outsourced.

4.4 Main Roles and Responsibilities

The main roles and responsibilities of the persons/bodies involved in risk management are outlined below.

Risk Committee

The RC is tasked by the BoD with the following responsibilities:

- Advises the BoD upon, and periodically evaluates, the risk strategy laid down;
- Generally, manages risk and engages in an evaluation of the risk management system, and makes recommendations on strengthening the Company's systems and controls, on how to tackle and prevent risk and how to evaluate the degree of severity and likelihood of risk.

Senior Management

The responsibilities of Senior Management with regards to risk management include the following:

- Define the Company's overall risk tolerance in relation to the relevant risks;
- Ensure that the overall risk exposure is maintained at prudent levels and is consistent with the available capital;
- Ensure that top management, as well as employees, are responsible for risk management and have the resources necessary to carry out their functions;
- Ensure that the Company implements sound fundamental principles that facilitate the identification, measurement, monitoring and control of risks;
- Ensure that appropriate plans and procedures for risk management are in place.

Head of Compliance and Risk Management Department

The main responsibilities of the Head of CRD, in her capacity as the Risk Manager, include the following:

- Establishes, maintains and develops the Company's risk strategy, in line with the direction given by the Risk Committee and Board of Directors;
- Provides input into the budget and capital planning process;
- Has the authority to limit / halt the trading of a specific desk in the event of material risk-taking;
- Approves changes in the Company's Trading Book policy statement and directs it to the RC and the BoD for ratification and approval;
- Monitors the investment risk undertaken by the Company for each client and as a whole;
- Escalates to the most senior levels of management, risk management issues that require their attention;
- Monitors the adequacy and effectiveness of the risk management policies and procedures;
- Reports to Senior Management, the Risk Committee and Board on risk management issues indicating in particular whether appropriate remedial measures have been taken in the event of any deficiencies identified;
- Approves limit exceptions and changes.

Risk Control Officer

The main responsibilities of the Risk Control Officer include the following:

- Maintains and updates the Limits Bible of the Company and reports on limits on a daily basis;
- Monitors on a daily basis the clients' positions, as well as the liquidity of the assets held as collateral for credit or loans granted to clients;
- Liaises with the trading desk for any matters relating to clients' trading activity;
- Prepares reports on operational risk and other material risk exposures;
- Builds a risk awareness culture within the organization;
- Provides support in day-to-day risk management procedures and risk controls.

4.5 Reporting on Risk Management

The Company's reporting is separated into two categories:

1. **Regulatory reporting as per CySEC's requirements:**

   - *Quarterly capital adequacy reports*: These present the Company's capital adequacy calculations, large exposures, leverage ratio calculations and geographical breakdown. In 2017, all CAD reports were submitted to CySEC within the prescribed deadlines. It is noted that no breaches of regulatory limits were recorded;
   - *Annual Pillar III disclosures*: The Company submits to the CySEC its Pillar III disclosures accompanied by the external audit report within five months from the end of financial year, in line with the provisions of CySEC's Directives DI144-2014-14 and DI144-2014-14(A). At the same time the Company publishes its Pillar III disclosures on its website;
   - *Internal Capital Adequacy Assessment Process* ("ICAAP") documented;
   - *Recovery plan*.

2. **Internal reporting:**

   - Daily Counterparty limits report;
   - Daily Market Risk – Value at Risk ("VaR") limits reports;
   - Capital adequacy evaluation reports;
   - Cash Deposit at banks monitoring for concentration risk to one bank;
   - Daily leverage and stop-out control for forex trading as defined by FX Margin Trading policy (including appropriateness);
   - Cash/Deposit control of forex clients according to allowed leverage;
   - Daily monitoring of CFD position limits;
   - Daily control of Chinese walls maintenance between Own and Brokerage Books;
   - Liquidity management;
   - Daily control of over the counter ("OTC") Equity and FI deals (including REPO, Spot and Forward transactions).

The CRD continued to implement strong risk monitoring controls related to the Company's forex business, by continuously updating its FX Margin Trading policy following the decisions of the Risk Committee and the Board of Directors. The said policy has also been updated, to reflect changes in leverage, stop out levels and limits on currencies, CFDs and Metals risk levels, as a response to

changes in the market environment (e.g. French Presidential Elections, British General Elections and formation of new UK Government).

4.6 Risk Policies and Procedures

The CRD has established strong risk policies and procedures that correspond to the strategies and risk appetite set by the Management and the Investment and Risk committees. Such policies include the following:

- Credit risk policy (establishes the framework for credit assessment, the structure of limits and process of approval, and monitoring of credit risks and describes the approach followed to manage credit risk);
- Market risk policy;
- Operational risk policy;
- Trading book policy;
- Pillar III Disclosures policy;
- FX Margin Trading Limits policy;
- Policy of exchange of Variation Margin for OTC derivatives contracts;
- Financial instruments Description and Associated Risks.

The aforementioned documents are established, implemented and maintained by the CRD. The policies were reviewed in 2017 and early 2018 by the CRD to ensure that they are in accordance to the requirements of the CySEC's directives. Furthermore, the Procedures Manual of the Company provides an extensive analysis of the procedures followed by the CRD.

4.7 Stress Testing Framework

ACC performs several stress tests as part of the ICAAP, in order to assess the Company's resilience against adverse economic conditions. Indicatively, the following stress testing scenarios run to identify the Company's vulnerabilities to risk:

1. Decrease in the market value of traded securities and FX, given significant volatility in Russian markets;
2. Critical shocks applied on specific asset groups;
3. Default of major counterparties;
4. Inability of specific counterparties to deliver instruments;
5. Sadden lack of liquidity on Russian markets;
6. Reverse stress test - Default of Alfa Group;
7. Reverse stress test - Default of major counterparties assuming an additional impairment;
8. Stress testing of trading positions.

4.8 Risk Statement

4.8.1 Risk Profile and Business Model

The Company's activities expose it to a variety of risks, and in particular to credit risk, country risk, market risk, operational risk, compliance risk, regulatory risk and reputational risk. The Company, through its operations, has significant exposure to the economies and financial markets of the Russian Federation, CIS countries and Cyprus.

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The Russian economy was growing in 2017 after overcoming the economic recession of 2015 and 2016; the economy is negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals. The financial markets continue to be volatile. This operating environment has a significant impact on the Company's operations and financial position, and continues to raise a number of risks for the Company's business.

The Cypriot economy has recorded growth in 2016 and 2017 after overcoming the economic recession of recent years. The overall economic outlook of the economy remains favourable, however there are still downside risks emanating from the persistent high levels of non-performing loans, the public debt ratio, as well as possible deterioration of the external environment.

4.8.2 Risk Strategy

The risk strategy of the Company is the responsibility of the BoD, which formulates it and is responsible for monitoring its implementation. This is achieved through the development of risk management processes and procedures as well as through an assessment of the risks undertaken and the effectiveness of the risk management framework, given the Company's business model. One important characteristic of the Company's risk strategy, is the alignment with the strategic and operational targets that are set by the Board. The risks that arise from the implementation of the Company's strategic and business plans are regularly analysed in order to ensure the adequacy of the relevant policies, procedures and systems.

The risk strategy of the Company aims to provide to both Senior Management and employees a general risk framework for the management of the different types of risk in line with the overall risk management and risk bearing capacity of the Company. The Company recognises the importance of risk management to its business success and therefore the overall objective is to establish effective risk management policies that are able to mitigate the Company's exposure to the various risks.

4.8.3 Risk Appetite

The Company's risk strategy, as this is set by the first line of defence, takes into account the risk profile and appetite of the Company. Risk appetite is the amount and type of risk that the Company is willing to accept in pursuing its business objectives and strategy. Risk appetite is defined by the Senior Management and the RC as the maximum level of residual risk that ACC is prepared to accept in order to deliver its business objectives. The Company's risk appetite is expressed through the following dimensions and indicators:

Risk appetite indicators (%)	Warning (Green)	Warning (Amber)	Limit (Red)
Capital indicators			
CET1 ratio	≥8%	<8%	<6,75%
Capital Adequacy ratio	≥13%	<13%	<10,26%[2]
Leverage ratio	≥6%	<6%	<3%
Profitability indicators			
Return on Equity	≥8%	<8%	≤5%
Cost to income ratio	≤40%	>40%	>60%
Asset Quality indicator			
Provisions of impairments/total loans	<40%	>40%	>50%

[2] It includes capital buffers e.g. conservation buffer, countercyclical capital buffer and systemic risk buffers. It is noted that O-SII buffer requirement applicable as of 1 October 2017 is 1%.

Risk appetite indicators (%)	Warning (Green)	Warning (Amber)	Limit (Red)
Other			
Number of complaints relative to the total number of active existing clientele	≤1%	<5%	>5%

Table 6: *Risk appetite indicators*

The zones correspond to the following:

- Green zone – provides the range where the indicator is performing at satisfactory levels given the operating conditions and business environment,
- Amber zone – provides a range which acts as a warning indicator to the Company to be able to take corrective action,
- Red zone – a breach of the limit which may be a threat to the Company, especially if it is a breach of a regulatory limit.

The risk appetite indicator are subject to review by the CRD, and further approval by the RC and BoD is sought, when necessary. Within 2017, the Company reassessed its risk appetite, updated its risk indicators and risk levels in view of the Bank Recovery and Resolution Directive ("BBRD") requirements. The Company's Management ensures that the regulatory required levels are met.

4.9 Governance Arrangements

4.9.1 Recruitment

The management body of the Company is the BoD. The member of the Board are recruited in line with the diversity policy and based on the guidelines issued by the CySEC. The assessment of new Directors is performed by the Nomination Committee, whereas the approval of new directors is taken by the directors as a collective body.

The Company's management body includes executive and non-executive directors, as well as independent directors. The Company's BoD has varied experience and background, including accounting, legal, banking, investments, risk management, etc. Additionally, the independent directors have a strong background in their field, adding as such value to the Company's BoD. It is noted that there are no foreseeable changes within the overall composition of the management body.

4.9.2 Diversity

The Company recognizes the benefits and necessity of an adequately diverse BoD which includes and utilizes the director's unique characteristics, including gender and age diversity. The Company's Nomination Committee has prepared the Company's Diversity policy which addresses, among others, the diversity of the members of the BoD. The objective of the said policy is to promote a balanced working environment where the skills, experience, qualities, professionalism and other backgrounds, such as the temperament and perspective of the directors, irrespective of gender, age, race, ethnicity and other criteria, enable each of them to contribute individually.

The Nomination Committee encourages gender diversity in Board appointments and appointment of other key positions. The aim is to strengthen the Company's corporate performance and ensure sound corporate governance.

The recommended target set by ACC's Nomination Committee is for a minimum female participation in the Board, of approximately 15-25%, in 2020. An action plan, which is currently in progress, approved by the Nomination Committee describing the required measures for the accomplishment of this target has been put in place.

The Nomination Committee also recommends, to the extent possible, and where such suitable candidates are identified, variety in race and ethnicity. The Nomination Committee also encourages age diversity to the extent that this combines the principles of drive, ambition, enthusiasm and hard work, with the experience and wisdom of older age. It is stressed that under no circumstances should any Board appointment be made based on factors of age, race or ethnicity but solely based on merit and skills.

4.9.3 Number of Directorships

As per the provisions of Section 9 of the Investment Services and Activities and Regulated Markets Law of 2017 (the "Law"), a director of a CIF that is significant in terms of its size, internal organization and the nature, the scope and the complexity of its activities shall not hold more than one of the following combinations of directorships at the same time:

- one executive directorship with two non-executive directorships;
- four non-executive directorships.

According to the Law, executive or non-executive directorships held within the same group shall count as a single directorship. All ACC's Directors have been approved by the CySEC. The number of directorships held by the members of the Board are outlined in the table below:

Director	Position within ACC	Executive Directorships	Non-Executive Directorships
Pavel Nazariyan	Non-executive Director	1	1
Oleg Artemenko	Non-executive Director	1	1
Andriy Glavatskyy	Executive Director	1	1
Simon Roache	Executive Director	1	-
Konstantinos Hadjisavvas	Executive Director	1	-
Constantinos Constantinou	Independent Director	1	3
Phidias Pilides	Independent Director	-	1
Yiola Stavraki (resigned 8 February 2018)	Independent Director	-	2

Table 7: *Number of directorships*

4.10 Internal Capital Adequacy Assessment Process

The Company uses the results of its most recent ICAAP exercise as a measurement of its internal capital requirements. The Company applies methodologies which are approved by the regulatory framework in order to calculate the capital requirements for Pillar I risks, as well as additional capital requirements for those risks which are either partially covered or not addressed under Pillar I.

The Risk Function, in cooperation with the Accounting Department, are responsible for the preparation of the ICAAP document, whilst Senior Management has the overall responsibility for 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 “healthy” business cycle, as well as, in the case of a stress.

According to the size and the complexity of its operations, the Company utilises the “Pillar I Plus” approach for the calculation of the additional capital for Pillar II. Under this approach, the Company calculates the capital needs, over and above the Pillar I minimum capital requirements, to cover risks not fully covered or not covered under Pillar I.

The results of the ICAAP are communicated to the CySEC upon request. During 2017, the Company received comments from CySEC’s Supervisory Review and Evaluation Process for the 2016 ICAAP. However based on the analysis, the Company appeared to be adequately capitalised. It is noted that the CySEC did not impose any additional capital.

4.11 Risk Management Declaration

The BoD of ACC confirms that the risk management arrangements and procedures of the Company are adequate, given the size and complexity of operations of the Company. In particular, the BoD confirms that the risk management systems put in place are adequate with regard to the Company’s risk profile and strategy and in line with the principle of proportionality.

5 Minimum Capital Requirements

The Company follows the standardised approach ("SA") for the measurement of the Pillar I capital requirements for credit and market risk, and the basic indicator approach ("BIA") for the calculation of operational risk capital requirements. The table below shows Pillar I regulatory capital requirements and Risk Weighted Assets ("RWAs"), broken down by risk type and approach as at 31 December 2017, compared to the previous year end.

	RWAs		Minimum Capital requirements	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	USD'000	USD'000	USD'000	USD'000
Credit risk (excluding CCR)	**300.853**	**536.725**	**24.068**	**42.938**
Of which the standardised approach	300.853	536.725	24.068	42.938
CCR	**519.527**	**456.210**	**41.562**	**36.497**
Of which mark to market	428.522	336.088	34.282	26.887
Of which CVA	91.005	120.122	7.280	9.610
Market risk	**1.240.551**	**1.048.520**	**99.244**	**83.881**
Of which the standardised approach	1.240.551	1.048.520	99.244	83.881
Large exposures	**201.944**	**263.611**	**16.156**	**21.089**
Operational risk	**140.190**	**137.191**	**11.215**	**10.975**
Of which basic indicator approach	140.190	137.191	11.215	10.975
Total	**2.403.065**	**2.442.257**	**192.245**	**195.380**

***Table 8**: Overview of RWAs (EU OV1)*

6 Credit and Counterparty Credit Risk

6.1 Definition of Credit Risk

Credit risk is defined as the potential that a counterparty or a client may potentially fail to meet its obligations in line with agreed terms. The Company is also exposed to credit risk arising from the probability that a counterparty/client will be unable to make payments in full when these are due. The Company identifies and monitors counterparty credit risk, concentration risk and country risk as part of credit risk.

6.2 Management of Credit and Counterparty Credit Risk

The management of credit risk, including counterparty credit risk, is the primary responsibility of the CRD – Risk Function, with Senior Management assuming a supervisory role in the process. The CRD, 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 Company has established a number of methodologies and techniques for managing and monitoring credit risk and counterparty credit risk. Additionally management ensures, through the ICAAP, that adequate internal capital is assigned to credit risk and counterparty credit risk if not adequately covered under Pillar I capital requirements.

The use of a credit assessment framework helps the CRD 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, the CRD also reviews the analysis and appropriateness of the credit ratings issued by external credit rating agencies (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.

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.

For monitoring and control purposes, all limits are inputted into the computer based system "Focus" and other IT systems (FOCUS Limit server). The CRD is responsible for monitoring all limit violations. As noted above, in case of violations, deals are blocked by the system and the Head of CRD has right to pass the deals for processing.

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 backed by eligible collaterals.

6.2.1 Limit Structure

For both client and counterparty trades, credit risk is related to the process of settling financial transactions. In case of different types of settlement, different types of settlement risk limits are applied:

- **Prepayment/pre-delivery for client/counterparty**: In case a client or counterparty gives a purchase order without placing collateral, settlement risk includes loosing principle and possibly investment opportunity. Such losses are restricted using settlement limits (restricted principle) and pre-settlement limits (investment opportunity).
- **DVP settlement**: In case of trade with DVP settlement through DTC or Euroclear (or other clearing houses), settlement risk contains only possible missed investment opportunity. To limit possible risk of losses pre-settlement limits are set.
- **Prepayment and pre-delivery from client/counterparty**: In case a client or counterparty prepaid for the purchase or pre-delivered (holding) assets, settlement risk contains only possible missed investment opportunity. To limit such losses pre-settlement limits apply.

6.2.2 Equity Limits

Transactions with all ACC clients/counterparties shall be conducted only within client/counterparty limits for securities transactions. Client/counterparty limits for securities (L) shall limit both settlement and pre-settlement client/counterparty credit risks. Settlement Risk Limit (L settlement), limiting the credit risk for all transactions bearing settlement risk, can be introduced within the client/counterparty securities transactions limits. Determination of client/counterparty credit exposure limits should follow these rules:

- For settlement risk transactions, the volume of the risk should be equal to the market value of client/counterparty transactional liability, increased by its potential growth margin;
- For transactions free from settlement exposure, the value of the risk should be equal the difference between market value of client/counterparty transactional liability increased by its potential growth and the market value of the Company’s liability reduced by its potential decrease;
- Risk factors are used to determine potential fluctuation of market value of liabilities (maximum change is determined with 99% confidence level, for the period of transaction settlement) Standard Limit (Pre-settlement Risk Standard Limit).

6.3 Credit Risk Monitoring

The credit risk management framework is automatically monitored by the systems. Counterparties are assigned limits and are checked in the system. In case there are any violations in the credit risk terms of a client, the Front Office is immediately informed to get the transaction revised in order to be within the limit. In exceptional cases and after the risk is analysed, the transactions that violate the pre-determined credit risk limits may be allowed to be processed. This operation is done manually in order to be able to control the risk. Settlement risk, delivery risk and payment risks are monitored on a daily basis with the reports that are distributed by the Settlements team. In cases that a transaction is delayed to settle, action is taken by the relevant departments to settle the transaction immediately.

6.4 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, and financial instruments categorised as at fair value through profit or loss, including derivatives.

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 (“SFTs”). The securities sold are not derecognised nor are they reclassified in the balance sheet, unless the transferee has the right by contract or custom to sell or re-pledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to banks or other financial liabilities depending on the counterparty. 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 balance sheet unless the counterparty has the right by contract or custom to sell or re-pledge 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 timeframe 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 other derivative financial instruments are carried at 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 financial instruments are included in profit or loss for the year in gains less losses arising from foreign currencies and precious metals and gains less losses arising from trading securities, depending on the related contracts.

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.

During the year the Company’s derivatives gross positive fair value amounted to USD 164.050k resulting in a final exposure amount of USD 265.458k.

It is noted that during the year the Company entered into credit derivative transactions in the form of a swap with a total notional amount of USD 20.000k.

6.5 Credit risk adjustments

6.5.1 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. As at the end of 2016 and 31 December 2017, there were no past due balances within trading securities, repurchase receivables, due from banks, loans and advances to customers and other financial assets.

6.5.2 Impairment of financial assets carried at amortised cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets are impaired. Impairment losses are recognised in profit or loss for the year 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.

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognised and a new asset is recognised at its fair value only if the risks and rewards of the asset substantially changed.

This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

During the year there were no impairment of financial assets, other than an impairment of a receivable from a Group company, as presented below.

6.5.3 Value adjustments and provisions for impaired exposures

During 2016 the Company impaired a receivable from a Group company, which however has been treated as a distribution. Impairment charge for investments held to maturity during the year amounted to USD 95k (2016: Impairment reversal of USD 149k). The table below presents the amount of the Company's impairment (charge)/reversal for investments held to maturity and reversal of provision for impairment of other financial assets.

	31/12/2017	31/12/2016
	USD'000	USD'000
Reversal of provision for impairment of other financial assets	544	2.287
Impairment (charge) / reversal for investments held to maturity	(95)	149

Table 9: *Impairment*

6.5.4 Total and average amount of net exposures

The total and average amount of net exposures for 2017 by exposure class are presented in the table which follows. The average net exposures correspond to the average of the quarterly net amounts by exposure class. Net exposures relate to amounts post value adjustments but before the application of credit conversion factors.

	Net value of exposures at the end of the period	Average net exposures over the period
2017	USD'000	USD'000
Corporates	478.316	756.207
Institutions	500.287	362.972
Equity exposures	11.033	11.165
Other exposures	5.074	9.396
Total standardised approach	994.710	1.139.740
Total	**994.710**	**1.139.740**

Table 10: *Total and average net amount of exposures (EU CRB-B)*

6.6 Own Funds Requirements against Exposures

Once the risk weighted exposures are calculated for all the exposure classes, these are multiplied by 8% in order to result in credit risk capital requirements, according to Article 438 of the Regulation. The table below presents the own funds requirements for each of the applicable exposure classes noted under Article 112 of the Regulation:

Asset Class	RWA	Capital Requirement
	USD'000	USD'000
Corporates	478.168	38.253
Institutions	235.100	18.808
Equity	11.033	883
Other	5.074	406
Total Exposures	**729.375**	**58.350**

Table 11*: Own funds requirements per asset class*

6.7 Exposures by geographic distribution (post credit risk mitigation)

The table below presents credit risk exposures analysed by geography, split by regulatory approach and exposure class. It includes counterparty credit risk. Geographical analysis is based on country of operation/residence of the customer.

	United Kingdom	Russia	Cyprus	France	BVI	Belgium	Other geographical areas[3]	Total
2017	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Total IRB approach	–	–	–	–	–	–	–	–
Institutions	374.838	–	59.040	51.226	–	11.670	3.513	500.287
Corporates	9.374	353.412	87.381	–	17.334	–	10.815	478.316
Equity exposures	–	2.656	109	–	–	–	8.268	11.033
Other exposures	66	184	4.824	–	–	–	–	5.074
Total standardised approach	384.278	356.252	151.354	51.226	17.334	11.670	22.596	994.710
Total	384.278	356.252	151.354	51.226	17.334	11.670	22.596	994.710

***Table 12**: Geographical breakdown of exposures (EU CRB-C)*

6.8 Exposures by residual maturity

The table below shows net credit exposures by maturity and exposure class. The table does not include counterparty credit risk. For this breakdown, exposure refers to on-balance sheet items where the "net exposure value" is calculated by deducting credit risk adjustments from the gross amount.

Net exposure value – 2017						
USD'000	On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
Institutions	104.067	-	-	-	-	104.067
Corporates	65.615	27.189	149.434	-	-	242.238
Equity exposures	2.656	-	8.377	-	-	11.033

[3] Other geographical areas include Ukraine, Latvia, Bermuda, Denmark, United Arab Emirates, Brazil, Cayman Islands, USA, Seychelles, Czech Republic, Switzerland, Netherlands, Canada, Hong Kong, Germany

Net exposure value – 2017						
USD'000	On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
Other exposures	4.853	-	155	-	66	5.074
Total standardised approach	177.191	27.189	157.966	-	66	362.412
Total	**177.191**	**27.189**	**157.966**	**-**	**66**	**362.412**

***Table 13**: Maturity of exposures (EU CRB-E)*

6.9 Exposures by significant industries

The table below shows net credit exposures by industry and exposure classes. The table does not include counterparty credit risk.

2017 USD'000	Information and communication	Other services	Total
Institutions	-	104.067	104.067
Corporates	-	242.238	242.238
Equity exposures	-	11.033	11.033
Other exposures	209	4.865	5.074
Total standardised approach	209	362.203	362.412
Total	**209**	**362.203**	**362.412**

***Table 14:** Concentration of exposures by industry or counterparty types (EU CRB-D)*

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

The Company uses Standard & Poor's, Fitch and Moody's to obtain credit rating for the relevant asset classes for the application of the standardised approach. The use of these ratings is in compliance with the requirements of Article 138 of the Regulation, and is used consistently for all exposures in a specific asset class. These ratings are used in the calculation of risk weights for the relevant asset classes, namely corporates and institutions. The Company uses the same approach for its entire portfolio unless there are material differences in the way it performs its business.

The Company has used the mapping table below, to map credit assessments to credit quality steps ("CQS"):

Credit Quality Step	Fitch Ratings	Moody's Ratings	S&P Ratings
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

Table 15: *Mapping of external rating to credit quality steps*

The table below presents the exposure values associated with each credit quality step:

	CQS						
Asset Class	1	2	3	4	5	6	NR
Corporates	–	–	707	55.323	–	–	422.286
Institution	27.493	395.653	9.529	9.675	22.383	5.980	29.574
Equities	–	–	–	2.656	–	–	8.377
Other	–	–	–	–	–	–	5.074
Grand Total	**27.493**	**395.653**	**10.236**	**67.654**	**22.383**	**5.980**	**465.311**

Table 16: *Exposure values split by credit quality step and asset class*

The table below analyses credit risk exposures under the standardised approach by risk weight, split by exposure class. It excludes counterparty credit risk. Exposures for which a credit assessment by a nominated ECAI is not available and that are applied specific risk weights depending on their class, as specified in the Regulation, are presented in the category "of which unrated".

2017 USD'000 Exposure classes	Risk weight							Total	Of which unrated
	0%	20%	50%	100%	150%	Other	Deducted		
Institutions	-	81.034	2	16.902	6.129	–	–	104.067	25.257
Corporates	-	–	–	241.827	411	–	–	242.238	186.914
Equity	-	–	–	11.033	-	–	–	11.033	8.377
Other items	0	–	–	5.074	-	–	–	5.074	5.074
Total	**0**	**81.034**	**2**	**274.836**	**6.540**	**–**	**–**	**362.412**	**225.622**

Table 17*: Standardised approach (EU CR5)*

The table below shows a breakdown of CCR exposures, calculated under the standardised approach, by portfolio (type of counterparties) and by risk weight as at 31 December 2017. Exposures for which a credit assessment by a nominated ECAI is not available and that are applied specific risk weights depending on their class, as specified in the Regulation, are presented in the category "of which unrated".

2017 USD'000	Risk weight				Total	Of which unrated
Exposure classes	20%	50%	100%	Others		
Institutions	19.666	375.381	1.173	–	396.220	4.317
Corporates	–	707	235.371	–	236.078	235.372
Total	**19.666**	**376.088**	**236.544**	**–**	**632.298**	**239.689**

***Table 18**: Standardised approach – CCR exposures by regulatory portfolio and risk (EU CCR3)*

When calculating the capital requirements for credit risk for both on- and off-balance sheet positions, the Company assigns risk weights to the exposures based on their exposure type and rating, as prescribed by the Regulation. The process for transferring issuer and issue credit assessments onto items not included in the trading book is applied in the following priority:

1. Where a credit assessment exists for a specific instrument, this credit assessment shall be used to determine the risk weight to be assigned to that item;
2. Where no directly applicable credit assessment exists for a specific instrument, then the credit assessment of the issuer shall be used;
3. Where no directly applicable credit assessment exists for a specific instrument or its issuer, the relevant exposure shall be treated as unrated. For this category, the risk weight will be determined taking into account whether a Sovereign rating exists or not.

The credit assessments mentioned above are not taken into account where relative exceptions per the Regulation apply e.g. short-term exposures to institutions.

6.11 Credit Risk Mitigation

Credit risk mitigation is currently applied only 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.

The monitoring of such collateral is performed by the Company's Front Officeand Collateral manager, which checks that the collateral to be received meets the specified criteria, including market or credit concentrations, prior to entering into a repurchase or reverse repurchase transaction. The valuation of collaterals and collateralised exposures is performed daily.

It is noted that no collateral is received against derivative exposures, other than forex/CFDs, thus no credit risk mitigation techniques are applied for such exposures. It should also be noted that the Company does not apply hedge accounting.

At 31 December 2017 reverse sale and repurchase agreements with banks were effectively collateralised by securities purchased under reverse sale and repurchase agreements with a fair value of USD 60.582k (2016: USD 9.274k).

Table EU CR3 below presents a breakdown of unsecured and secured credit risk exposures and credit risk exposures secured by various credit risk mitigants, for loans and debt securities. Unsecured exposures represent the carrying amount of credit risk exposures (net of credit risk adjustments) that do not benefit from a credit risk mitigation technique, regardless of whether this technique is recognised in the CRR. Exposures secured represent the carrying amount of exposures that have at least one credit risk mitigation ("CRM") mechanism (e.g. collateral) associated with them. Exposure secured by various credit risk mitigants are the carrying amount of exposures (net of credit risk adjustments) partly or totally secured by collateral, whereby only the secured portion of the overall exposure is presented.

	Exposures unsecured - Carrying amount	Exposures secured - Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
2017	USD'000	USD'000	USD'000	USD'000	USD'000
Total loans	-	520.418	520.418	-	-
Total debt securities	-	-	-	-	-
Total exposures	**-**	**520.418**	**520.418**	**-**	**-**
Of which defaulted	-	-	-	-	-

Table 19: *CRM techniques – Overview (EU CR3)*

The table below shows credit risk exposure before credit conversion factors, and credit risk mitigation, obtained in the form of eligible financial collateral, guarantees and credit derivatives, and the exposure at default values in the standardised approach as well as related RWA and average risk weights broken down by regulatory exposure classes and split between on- and off-balance sheet exposures. RWA density represents the average risk weight.

	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
Exposure classes	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
	USD'000	USD'000	USD'000	USD'000	USD'000	%
Institutions	651.817	-	500.287	-	235.100	32,23%
Corporates	480.364	-	478.316	-	478.168	65,56%
Equity	11.033	-	11.033	-	11.033	1,51%
Other items	5.074	-	5.074	-	5.074	0,70%
Total	**1.148.288**	**-**	**994.710**	**-**	**729.375**	**100,00%**

Table 20*: Standardised approach – Credit risk exposure and CRM effects (EU CR4)*

It is noted that no netting or credit risk mitigation techniques are applied for derivative contracts.

6.12 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. It is noted that the Company did not have any wrong-way risk exposures during 2017. The impact of a credit rating downgrade, in terms of additional collateral requirements, is not considered significant.

As previously mentioned, for calculating its risk weighted exposures for credit risk and counterparty credit risk, the Company has decided to follow the standardised approach.

6.13 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 1: by attaching current market values to contracts, the current replacement cost of all contracts with positive values is obtained.
- Step 2: to obtain a figure for the potential future credit exposure, the notional amounts or underlying values are multiplied by the percentages presented under Part Three, Title II, Chapter 6 of the Regulation.
- Step 3: 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 the Regulation. 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.

The following table provides the counterparty credit risk exposures based on the standardized approach, broken down by risk weights and regulatory exposure classes. Where a rating is unavailable, or where the risk weight has been determined by application of specific CRR provisions, exposures have been classed as "unrated".

USD'000	Notional	RCR	PFE	EEPE	Multiplier	EAD post CRM	RWAs
Mark to market		164.297	101.162			265.459	223.431
Original exposure	7.094.322					-	-
Standardised approach				-	-	366.840	205.091
IMM (for derivatives and SFTs)				-	-	-	-
Of which securities financing transactions				-	-	-	-
Of which derivatives and long settlement transactions				-	-	-	-
Of which from contractual cross-product netting				-	-	-	-
Financial collateral simple method (for SFTs)						-	-

USD'000	Notional	RCR	PFE	EEPE	Multiplier	EAD post CRM	RWAs
Financial collateral comprehensive method (for SFTs)							
VaR for SFTs							
Total	7.094.322	164.297	101.162	-	-	632.299	428.522

Table 21: *Analysis of CCR exposure by approach (EU CCR1)*

The following table shows the impact on exposures – derivatives and SFTs – from netting and collateral.

	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
2017	USD'000	USD'000	USD'000	USD'000	USD'000
Derivatives	265.459	-	-		265.459
SFTs	520.418	-	-	153.578	366.840
Cross-product netting	-	-	-	-	-
Total	**785.877**	**-**	**-**	**153.578**	**632.299**

Table 22: *Impact of netting and collateral held on exposure values (EU CCR5-A)*

A breakdown of all types of collateral posted or received to support or reduce CCR exposures, as at 31 December 2017, is presented below:

	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of collateral posted
	Segregated	Unsegregated	Segregated	Unsegregated		
2017	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash	-	-	-	-	-	-
Bonds	-	-	-	-	10.365	303.701
Equities	-	-	-	-	150.927	38.732
Total	**-**	**-**	**-**	**-**	**161.292**	**342.433**

Table 23*: Composition of collateral for exposures to CCR (EU CCR5-B)*

6.14 Credit Valuation Adjustment Risk

Additional capital requirements arising from credit valuation adjustment ("CVA") risk needs to be held by the Company for all OTC derivative instruments in respect of all of its business activities, other than credit derivatives recognised to reduce risk-weighted exposure amounts for credit risk. CVA is an adjustment to the mid-market valuation of a transaction to account for the price of counterparty credit risk. Therefore, the purpose of the CVA capital charge is to capture the risk of future changes in CVA.

The standardised approach has been used to calculate the CVA charge for regulatory purposes in accordance with Articles 381, 382 and 384 of the Regulation. As at 31 December 2017, the own funds requirement for CVA risk was USD 7.280k.

The table below provides a summary of the exposures subject to CVA regulatory calculations.

	Exposure value	RWAs
2017	USD'000	USD'000
All portfolios subject to the standardised method	462.095	91.005
Total subject to the CVA capital charge	**462.095**	**91.005**

Table 24: *CVA capital charge (EU CCR2)*

7 Market Risk

7.1 Definition of Market Risk

Market risk is the risk of a change in the actual or effective market value or earnings of a portfolio of financial instruments caused by adverse movements in market variables such as equity, bond and commodity prices, currency exchange and interest rates, credit spreads, recovery rates and correlations, as well as implied volatilities in all of the above.

7.2 Management of Market Risk

Market risk, and the positions giving rise to market risks are managed on a daily basis. Specifically the Company's Senior Management and CRD are responsible for:

- Establishing prudent methodologies for limit setting, so as to control the exposures of the Company;
- Establishing a limits framework for the trading business and setting out the permitted products and activities, as well as the maximum exposure limits;
- Reviewing all limits at least annually;
- Allocating limits where they can be used most profitably and efficiently;
- Performing VaR and stress testing calculations, for quantitative risk measurement and management.

Market risk is carefully managed through detailed policies and procedures. Senior Management undertakes an annual review of the limits in place, based on discussions and recommendations received by the CRD. 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. In the absence of approved limits, trading activity is not undertaken and no new products are traded.

7.2.1 Trading Book

The CRD monitors and controls all trading positions on a daily basis to ensure that all quantitative limits are adhered to. A number of limits have been established that the Company may apply to mitigate market risk. Depending on market conditions, limits may be revised and increased limit restrictions may be applied.

- **Foreign Exchange Risk:**
    - Net Open Position against local currency;
    - Total Net Short Position;
    - Net Open Position by currency;
    - Maximum Maturity;
    - Counterparty Limits;
    - FX Settlement Limits.
- **Market Risk arising from Bond Securities, Bond Futures, Interest Rate Futures, Interest Rate Swaps, Credit Default Swaps:**
    - Position Limits;
    - Maximum Holding Period Limit;
    - Maximum Maturity;
    - Counterparty Exposure Limits.

- **Market Risk arising from Equity positions:**
  - Position Limits;
  - VaR, 1 day 99% confidence level.

7.2.2 Banking Book

Equity price risk in the banking book is also 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 banking book and trading book positions using the prescribed regulatory approach.

7.3 Market Risk Assessment

The methodology used to assess market risks, comprises of two stages:

- assessment of positions' sensitivity to market risk factor changes;
- assessment of prospective dynamics of market factors.

A market risk factor, is a variable that causes changes in the value of financial instruments or on the portfolio value. The multitude of factors includes the term structure of interest rates, spot transaction rates in foreign currency, equity prices, commodity prices and their volatility. These factors can affect both product prices and the associated market risk. The assessment of market risk factors, implies measurement of volatility (standard deviations) of the factor within a period of time required to liquidate the position or hedge the risk (liquidation period).

VaR is the maximum drop in market value of the position over a set period of time on the "normal" market, measured under a respective model methodology (provided a pre-set confidence level). A VaR model can also calculate cap losses (provided a pre-set confidence level) in an assumption of liquidating position in the "normal" market.

7.4 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 interest rate risk on a daily basis and sets limits on the level of mismatch on interest rate repricing. The table below summarises the Company's exposure to interest rate risk. The table below 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-monetary	Total
	USD'000					
Total financial assets	901.892	386.666	1.848	110.300	103.000	1.503.706
Total financial liabilities	596.687	213.202	1.028	4.173	-	815.090
Net interest sensitivity gap	**305.205**	**173.464**	**820**	**106.127**	**103.000**	**688.616**

Table 25: *Exposures to interest rate risk*

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

At 31 December 2017, if interest rates at that date had been 200 basis points lower/higher (2016: 200 basis points lower/higher) with all other variables held constant, profit for the year would have been USD 5.045 thousand lower/higher (2016: USD 14.890 thousand lower/higher).

7.5 Measurement of Market Risk

The minimum capital requirements with respect to market risk are calculated using the standardised approach. Under the standardised approach, market risk capital requirements are calculated with respect to position risk (covering both equity and interest rate risks), commodities risk and foreign exchange risk.

The below table summarises the RWAs and capital requirements for market risk, subject to the Standardised approach, split between outright products, options and securitisation positions.

2017	RWAs USD’000	Capital requirements USD’000
Outright products		
Interest rate risk (general and specific)	404.340	32.347
Equity risk (general and specific)	72.911	5.833
Foreign exchange risk	698.714	55.897
Commodity risk	25.100	2.008
Options		
Simplified approach	39.486	3.159
Delta-plus method	–	–
Scenario approach	–	–
Securitisation (specific risk)	–	–
Total	1.240.551	99.244

Table 26: *Market risk under the standardised approach (EU MR1)*

7.6 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 that may be classified in the non-trading book.

The Company’s investments, as at 31 December 2017, were the following:

Investments	USD ‘000
Investments held to maturity	8.377
Investments in companies within the Group at cost	2.656

Table 27: *Investments*

Investments held to maturity

Investments held to maturity are represented by Corporate Eurobonds denominated in US Dollars issued by a large Russian company. The said maturities have a maturity date of May 2020 (2016: May 2020), coupon rates of 7.0% p.a. (2016: 7.0% p.a.) and yield to maturity of 21.8% p.a. (2016: 25.5% p.a.).

The value of the investments held to maturity as at 31 December 2017 were as follows:

	31/12/2017
	USD'000
Investments held to maturity	8.660
Provision for impairment of investments held to maturity	(283)

Table 28: *Investments held to maturity*

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

8 Operational Risk

Operational risk is defined as the risk of direct and indirect loss resulting from inadequate or failed processes, people and systems from external events, and includes legal risk. 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.

8.1 Management of Operational Risk

Operational risk is inherent to all of the Company's operations. The Company's Senior Management and the CRD successfully manage and control operational risks by identifying, measuring, monitoring, reporting, controlling and mitigating operational risks. Specifically, the CRD is responsible for:

- Establishing the 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.

Limits for operational risk are established by the authorized collective body of the Company upon presentation by the CRD. Limits may be introduced both in the relative (on the basis of ratings) and absolute (cash) terms. Introducing limits for individual types of operational risks is an element of operational risk management at the portfolio level.

8.2 Identification and Escalation of Operational Risk

Department heads bear the responsibility for the identification and escalation of operational risks relevant to their departments. The information about operational risks, is submitted to the CRD upon identification and actions to minimize the risks are determined jointly by the department and the CRD. For increasing the efficiency of the process of identification and escalation of operational risks the CRD develops, coordinates and implements different projects for identification of operational risks and assessment thereof.

8.3 Assessment of Operational Risk

The assessment of an operational risk level consists of an assessment of:

- Probability of the occurrence of a risk event,
- Level of possible losses.

The CRD performs the assessments for operational risks. Moreover, the CRD approves the assessments of operational losses, submitted by Company's departments.

8.4 Management of Operational Risk

Measures to reduce operational risks are developed and executed independently by the individual departments, as provided by the Company's procedures, and where necessary, the department heads consult with the CRD. The basic criterion for taking a decision on implementation of measures to minimize an operational risk is economic effect from such operational risk reduction – the cost of control measures must not exceed the amount of expected losses from realization of the risk.

8.5 Reporting on Operational Risk

The CRD is responsible for the timely preparation of operational risk reports, by sourcing relevant information from the Company's departments as well as loss data, gathered at this time in the form of memos.

8.6 Measurement of Operational Risk

The Company adopts the basic indicator approach for operational risk measurement. Under the basic indicator approach, the own funds requirement for operational risk is equal to 15% of the average over three years of the relevant indicator as set out in Article 316 of the Regulation. The average over three years is calculated on the basis of the last three twelve monthly observations at the end of the financial year.

	Gross Income			Capital requirements
USD'000	2015	2016	2017	2017
Total activities subject to BIA	89.728	58.335	76.240	11.215

Table 29: *Operational Risk Capital Requirements*

9 Remuneration Policy and Practices

The Remuneration policy ("the Policy") of the Company and its UK branch (Alfa Capital Markets), forms an integral part of the Company's corporate governance and is developed taking into consideration the Company's objectives, the business and risk strategy, corporate cultures and values and the long-term interests of the Company.

The Policy applies to top management executives, risk takers, individuals whose total remuneration takes them into the same remuneration level as the aforementioned categories, individuals who perform control duties, and individuals whose professional activities have a significant impact on the Company's risk profile.

The Policy is reviewed at least annually, and any amendments made are approved by the BoD. The Human Resources Department is responsible for the preparation, upkeep and updating of the Policy. The BoD adopts and periodically reviews the general principles of the Policy. The BoD is also responsible for its implementation as well as for preventing/mitigating any risks and conflicts which may arise as a result of the remuneration practices of the Company.

The implementation of the Policy is also subject to periodic review by the Compliance and Internal Audit functions in order to assess the level of compliance with the legislation, internal policies and the Company's risk culture.

Until 6 September 2017, the Remuneration Committee comprised of 2 non-executive independent members of the BoD. Since 7 September 2017, the non-executive independent members comprising the Remuneration Committee increased to 3. During 2017, the Remuneration Committee held four meetings.

The main responsibility of the Remuneration Committee is to prepare recommendations in relation to the remuneration of the identified categories of staff whose professional activities have a material impact on an institution's risk profile according to the relevant regulation[4], and submit them to the BoD for approval. In addition, the Remuneration Committee is responsible to:

- provide its support and advice to the BoD on the design of the Company's Policy;
- support the BoD in overseeing the policies, practices and processes relating to remuneration and the compliance with the Policy;
- check whether the existing Policy is still up to date and, if necessary, make proposals for changes;
- review the appointment of external remuneration consultants that the BoD may decide to engage for advice or support;
- ensure the adequacy of the information provided to shareholders on policies and practices and in particular on the proposed maximum level of the ratio between variable and fixed remuneration;
- assess the mechanisms and systems adopted to ensure that the remuneration system properly takes into account all types of risks, liquidity and capital levels;
- ensure that the Policy is consistent with, and promotes, sound and effective risk management and is in line with the Company's business strategy, objectives, corporate culture and values, as well as its long-term interests;

[4] Commission Delegated Regulation (EU) No. 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regards to the regulatory technical standards, with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile.

- assess the achievement of performance targets and the need for ex post risk adjustment, including the application of malus and clawback arrangements.

The Company has established a competitive compensation framework in order to attract, engage and retain its employees. The basic principles on which the Policy is formulated relate to the following:

- provides for an effective framework for performance measurement, risk adjustment and the linkages between performance and reward;
- outlines the structure of variable remuneration including where applicable the instruments in which part of the variable remuneration is awarded;
- supports the Company in achieving and maintaining a sound capital base and an appropriate liquidity profile;
- enables the identification and mitigation of conflicts of interests stemming from the remuneration awarded, by establishing, amongst others, objective award criteria based on the internal reporting system, appropriate controls and the four eye principle;
- is consistent, promotes sound and effective risk management and does not encourage risk-taking that exceeds the level of risk tolerated by the Company;
- is clear, well documented and transparent including proper documentation of the decision-making process and the reasoning behind this Policy;
- is awarded to different categories of staff including staff members that are employed in control functions and is consistent with the principle that such persons are considered as material risk takers, since they are responsible for the day-to-day management of the business and its risks;
- outlines the methods for the measurement of performance, including the performance criteria, defined in the Bonus Policy of the Company which is a separate document.

This Policy covers total remuneration (i.e. fixed and variable) as well as benefits in kind and allowances.

The amount of remuneration is fixed in the employment agreement of each employee and it reflects the educational level, experience, accountability, 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 prevailing legal requirements. Total remuneration consists of the fixed salary, benefits such as health insurance and in certain cases variable remuneration in the form of a bonus.

As per the provisions of Directives DI144-2014-14 and DI144-2014-14(A) the principles adopted by the Company relating to variable remuneration, when provided, are as follows:

- Where remuneration is performance related, the total amount of remuneration is based on a combination of the assessment of the performance of the individual and of the department concerned, as well as the overall results of the Company as a whole;
- Assessment of performance is set in a multi-year framework in order to ensure that the assessment process is based on long-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 the business risks it encounters;
- The total fixed and variable remuneration paid to the identified persons does not exceed the materiality threshold; where this is the case the Company's BoD will exercise its discretion as to the means by which variable remuneration will be paid (i.e. solely in instruments or solely in cash or a combination of both);
- Variable remuneration is not guaranteed and shall not be part of prospective remuneration plans;

- Guaranteed variable remuneration is limited only to the cases the Company wants to offer it to the first year of employment of a new staff member, if and only if the Company has a strong capital base;
- Fixed and variable components of total remuneration are appropriately balanced;
- Variable remuneration can be reduced to zero, and shall not exceed 100% of the fixed component of the remuneration for each individual unless other conditions apply;
- Variable remuneration paid in instruments will be in the form of promissory notes or other equivalent non-cash instrument issued by the Company.

As allowed by Directive DI144-2014-14, the Company's BoD may decide that a higher variable remuneration may be given; the BoD will ensure that all provisions of the Directive DI144-2014-14 will be followed accordingly.

When paying out any variable remuneration to the risk takers, the Company ensures the following, in a manner and to the extent that is appropriate to the Company's size, internal organisation and nature, scope and complexity of activities (the "Proportionality Conditions"):

- At least 40% of the variable remuneration is deferred over a period of three to five years;
- In case that variable remuneration is of a particular high amount, then at least 60% of the amount shall be deferred;
- At least 50% of any variable remuneration is paid out in instruments. This is applied to both the deferred and the non-deferred part of the variable remuneration component;
- Up to 100% of the total variable remuneration is subject to malus or clawback arrangements, which are set by the Company.

Proportionality Conditions

In accordance with paragraph 20(2) of the Directive DI144-2014-14, investment firms shall apply remuneration principles in a way and to the extent that is appropriate to their size, internal organisation and the nature, the scope and the complexity of their activities. Taking into account that currently there are no official guidelines provided with regards to the implementation, form and provisions of proportionality, we introduced certain Proportionality Conditions in relation to the most stringent provisions of remuneration principles to ensure that a balance is reached between achieving the objectives of the Directive DI144-2014-14 and market practice for ensuring fair remuneration of the Company's personnel. These Proportionality Conditions take into account guidelines provided by the FCA (Principle 12 of the Remuneration Principles (19C.3.34)). The Company's proportionality conditions take into account the following factors:

- % of variable remuneration, compared to total remuneration of all Identified staff/Risk takers;
- Maximum amount of variable remuneration per Identified staff/Risk taker;
- % of total variable remuneration compared to the Company's profits for the period, and;
- The Company's Capital Adequacy Ratio, including Combined Buffer and Pillar 2 requirements.

All Proportionality Conditions set out in the Company's Remuneration Policy are subject to periodic review by the Remuneration Committee in order to assess the level of compliance with the applicable regulatory and legal framework. Such review is conducted at least on an annual basis, and any amendments made are approved by the Board of Directors.

It is noted that as at 31 December 2017, there was no outstanding deferred remuneration, paid out and reduced through performance adjustments or sign-on payments during the year.

There were severance payments to three employees who resigned during the year, totalling to EUR 23.950. In addition, an interim bonus was given to the three abovementioned employees, totalling to EUR 65.477.

Performance appraisals are conducted on an annual basis. In order to perform performance appraisals key objectives/goals are set annually. Performance is then assessed against these objectives/goals. If deemed appropriate to propose salary revisions for specific persons, the Company's CEO makes this decision. Specific salary increases for Senior Management (specifically the Risk Manager and Compliance Officer) also require the consent of the Chairman of the BoD.

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. Transactions performed by the Brokerage Department are monitored for their correspondence to the client's profile or investment strategy on a regular basis, by the CRD. Remuneration of sales staff in forex is not focused only on performance criteria but also to the relevant employee's adherence to internal policies and procedures as well as the Code of Conduct. Thus, the remuneration practices of the Company do not affect or give an incentive to an employee to mis-sell.

The provisions of the Directive DI144-2014-14 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 BoD.

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 BoD.

The table below provides aggregate information on remuneration, broken down by business area, including those considered as senior management and staff whose actions have a material impact on the risk profile of the Company.

Position	Remuneration USD'000		Number of Persons
	Fixed	Variable	
Senior Management[5]	821	897	8
Other identified staff/risk taker	1.094	616	19

***Table 30**: Amount of remuneration, split into fixed and variable*

During the reporting period there were no individuals remunerated EUR 1m or more. The following table provides aggregate quantitative information on remuneration, broken down by business line:

Business Line	Remuneration USD'000
Control Functions[6]	1.167
Trading and Sales[7]	1.605
Other Business lines[8]	656

***Table 31:** Remuneration per business line*

[5] It includes Executive Directors and Heads of significant business lines
[6] It includes Risk, Compliance, Legal and any personnel which comprise 4Eyes, including executive directors
[7] It includes Own Account, Brokerage, Forex and Portfolio Management Departments
[8] It includes identified staff from Treasury, Back office and Accounting Departments

10 Leverage

10.1 Definition of Leverage Ratio

The Regulation requires the disclosure of the Company's leverage position. In line with Article 429 of the Regulation, as well as the transitional provisions of Article 499, the leverage ratio is defined as the capital measure divided by the total exposure measure, expressed as a percentage.

Specifically, the capital measure for the leverage ratio is the Tier 1 capital and the total exposure measure is the sum of exposure values of all assets and off-balance sheet items, not deducted when determining the capital measure. The leverage ratio is calculated using two capital measures:

- Tier 1 capital: fully phased-in definition;
- Tier 1 capital: transitional definition.

Since the Company does not have any transitional provisions, the Tier 1 capital is the same under both conditions of Article 499(1) (a) and (b) of the Regulation and the two leverage ratios are the same.

As at 31 December 2017 the leverage ratio of the Company was at 49,51% well above the 3% leverage ratio minimum requirement set by the Basel Committee. Going forward, and as the leverage requirements become formalised the Company will be solidifying the management of leverage risk to ensure that it will be above the minimum required.

10.2 Description of the processes used to manage the risk of excessive leverage

The CRD oversees, manages and closely monitors leverage along with the exposures to risk and the solvency ratio of the Company to ensure that the risk of excessive leverage is identified and properly managed. The Company uses the leverage ratio as an indicator of risk appetite since it is a simple instrument that offers a safeguard against the risks associated with the risk models underpinning RWAs.

The risk of excessive leverage is managed by calculating and monitoring the leverage ratio on a daily/quarterly basis in order to ensure that is within the risk strategy and risk appetite indicators of the Company. The Company maintains a proactive approach on managing the leverage ratio in order to stay within risk appetite. In cases where the leverage ratio falls outside the prescribed limits, the CRD and RC reviews the available options, including decrease in the risk weighted exposures, to reduce leverage within the acceptable levels.

Since the Company's leverage ratio of 49,51% is well above the regulatory minimum ratio of 3%, management considers that the leverage exposure is at an appropriate level safeguarding the resilience of the Company's business model and ongoing operations.

10.3 Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers

The leverage ratio has increased as at 31 December 2017 reaching 49,51%, compared to 34.01% as at the end of 2016. On-balance sheet items, other than derivatives and SFTs, and SFTs are the main drivers of the leverage ratio exposures

Over the year 2017, the total exposure measure decreased by approximately USD 445m to USD 1,376m. This is driven by the decrease of USD 392m in Total Assets mainly due to the decrease in bonds, open forward contracts and claims acquired from 2016 to 2017.

10.4 CRR Leverage Ratio – Disclosure Template

The following tables show the leverage ratio exposure and the leverage ratio, and they have been prepared using the format set out in Annex I and Annex II of the Implementing technical standards with regard to disclosure of the leverage ratio for institutions (Commission Implementing Regulation-EU 2016/200).

Reference date	31/12/2017
Entity name	Alfa Capital Holdings (Cyprus) Limited
Level of application	Individual

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

		USD 000s
1	Total assets as per published financial statements	1.510.070
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	N/A
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No. 575/2013)	N/A
4	Adjustments for derivative financial instruments	265.459
5	Adjustment for securities financing transactions (SFTs)	366.840
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	N/A
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No. 575/2013)	N/A
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No. 575/2013)	N/A
7	Other adjustments	(766.443)
8	Leverage ratio total exposure measure	1.375.926

Table LRCom: Leverage ratio common disclosure

		USD 000s
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	745.184
2	(Asset amounts deducted in determining Tier 1 capital)	(1.557)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**743.627**
	Derivative exposures	
4	Replacement cost associated with *all* derivatives transactions	164.297
5	Add-on amounts for PFE associated with *all* derivatives transactions	101.162
EU-5a	Exposure determined under Original Exposure Method	N/A
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	N/A
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	N/A

		USD 000s
8	(Exempted CCP leg of client-cleared trade exposures)	N/A
9	Adjusted effective notional amount of written credit derivatives	N/A
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	N/A
11	**Total derivatives exposures**	**265.459**
	SFT Exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	366.840
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	N/A
14	Counterparty credit risk exposure for SFT assets	366.840
EU-14a	Derogation for SFTs: Counterparty credit risk exposure	N/A
15	Agent transaction exposures	N/A
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	N/A
16	**Total securities financing transaction exposures**	**366.840**
	Other Off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	N/A
18	(Adjustments for conversion to credit equivalent amounts)	N/A
19	**Other off-balance sheet exposures**	-
	Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No. 575/2013 (on and off balance sheet)	
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No. 575/2013 (on and off balance sheet))	N/A
EU-19B	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No. 575/2013 (on and off balance sheet))	N/A
	Capital and total exposure measure	
20	Tier 1 capital	**681.173**
21	Leverage ratio total exposure measure	**1.375.926**
	Leverage Ratio	
22	Leverage ratio	**49,51%**
	Choice on transitional arrangements and amount of derecognised fiduciary items	
EU-23	Choice on transitional arrangements for the definition of the capital measure	N/A
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No. 575/2013	N/A

Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		USD 000s
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	743.627
EU-2	Trading book exposures	381.215
EU-3	Banking book exposures, of which	362.412

		USD 000s
EU-4	Covered bonds	–
EU-5	Exposures treated as sovereigns	–
EU-6	Exposures to regional governments, MDB, international organisations and PSE **not** treated as sovereigns	–
EU-7	Institutions	104.067
EU-8	Secured by mortgages of immovable properties	–
EU-9	Retail exposures	–
EU-10	Corporate	242.238
EU-11	Exposures in default	–
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	16.107

Appendix 1: Main Features of Common Equity Tier 1 Instruments

Capital instruments main features template		
1	ISSUER	Alfa Capital Holdings (Cyprus) Limited
2	Unique identifier (eg CUSIP,ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	Cyprus
	Regulatory treatment	Companies Law,Cap.113
4	Transitional CRR rules	N/A
5	Post-transitional CRR rules	N/A
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	USD 180mln
9	Nominal amount of instrument	1,71
9a	Issue price	1,71
9b	Redemption price	-
10	Accounting classification	Equity
11	Original date of issuance	N/A
12	Perpetual or dated	N/A
13	Original maturity date	N/A
14	Issuer call date, contingent call dates and redemption amount	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupon/dividends	N/A
17	Fixed or floating dividend/coupon	N/A
18	Coupon rate and any related index	N/A
19	Existence of dividend stopper	N/A
20a	Fully discretionary, partially discretionary or mandatory (in items of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in items of amount)	Fully discretionary
21	Existence of step up or other incentive or redeem	N/A
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A

Capital instruments main features template		
30	Write-down features	N/A
31	If write-down , write-down trigger(s)	N/A
32	If write-down , full or partial	N/A
33	If write-down , permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A

Appendix 2: Transitional Own Fund Disclosure according to the Annex IV of the EU regulation No. 1423/2013

Transitional Own Funds Disclosure		Amount as of 31/12/2017
		USD '000
Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	180.014
	of which: Instrument type 1 - Share Capital	6.017
	of which: Instrument type 2 - Share Premium	173.997
	of which: Instrument type 3	–
2	Retained earnings	440.204
3	Accumulated other comprehensive income (and other reserves)	–
3a	Funds for general banking risk	N/A
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	N/A
	Public sector capital injections grandfathered until 1 January 2018	N/A
5	Minority interests (amount allowed in consolidated CET1)	N/A
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	62.512
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**682.730**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	(74)
8	Intangible assets (net of related tax liability) (negative amount)	(1.483)
9	Empty set in the EU	N/A
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	N/A
11	Fair value reserves related to gains or losses on cash flow hedges	N/A
12	Negative amounts resulting from the calculation of expected loss amounts	N/A
13	Any increase in equity that results from securitised assets (negative amount)	N/A
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	N/A
15	Defined-benefit pension fund assets (negative amount)	N/A
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	–

	Transitional Own Funds Disclosure	Amount as of 31/12/2017
		USD '000
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	N/A
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	N/A
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	N/A
20	Empty set in the EU	N/A
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	–
20b	of which: qualifying holdings outside the financial sector (negative amount)	–
20c	of which: securitisation positions (negative amount)	–
20d	of which: free deliveries (negative amount)	–
21	Deferred tax assets arising from temporary differences (amount **above** 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	N/A
22	Amount exceeding the 15% threshold (negative amount)	N/A
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	N/A
24	Empty set in the EU	N/A
25	of which: deferred tax assets arising from temporary differences	N/A
25a	Losses for the current financial year (negative amount)	N/A
25b	Foreseeable tax charges relating to CET1 items (negative amount)	N/A
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	N/A
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	N/A
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	N/A
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	N/A
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	(1.557)
29	**Common Equity Tier 1 (CET1) capital**	**681.173**

	Transitional Own Funds Disclosure	Amount as of 31/12/2017
		USD '000
30-36	Additional Tier 1 (AT1) capital: instruments	–
37-42	Additional Tier 1 (AT1) capital: regulatory adjustments	–
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	–
44	Additional Tier 1(AT1) capital	–
45	**Tier 1 capital (T1 = CET1 + AT1)**	**681.173**
Tier 2 (T2) capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	–
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	–
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	–
49	of which: instruments issued by subsidiaries subject to phase out	–
50	Credit risk adjustments	–
51	**Tier 2 (T2) capital before regulatory adjustments**	–
Tier 2 (T2) capital: regulatory adjustments		
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	–
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	N/A
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	N/A
54a	of which new holdings not subject to transitional arrangements	N/A
54b	of which holdings existing before 1 January 2013 and subject to transitional arrangements	N/A
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	N/A
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No. 575/2013 (i.e. CRR residual amounts)	N/A
56a	Residual amounts deducted from Tier 2capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No. 575/2013	N/A

	Transitional Own Funds Disclosure	Amount as of 31/12/2017
		USD '000
	Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc	N/A
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No. 575/2013	N/A
	Of which items to be detailed line by line, e.g. reciprocal cross holdings in at1 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc	N/A
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	N/A
	Of which: possible filter for unrealised losses	N/A
57	Total regulatory adjustments to Tier 2 (T2) capital	N/A
58	**Tier 2 (T2) capital**	–
59	**Total capital (TC = T1 + T2)**	681.173
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No. 575/2013(i.e. CRR residual amounts)	N/A
	Of which: Items not deducted from CET1 (Regulation (EU) No. 575/2013residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc)	N/A
	Of which: Items not deducted from AT1 items (Regulation (EU) No. 575/2013residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc)	N/A
	Items not deducted from T2 items (Regulation (EU) No. 575/2013residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own t2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc)	N/A
60	**Total risk weighted assets**	N/A
Capital ratios and buffers		
61	**Common Equity Tier 1 (as a percentage of total risk exposure amount)**	**28,35%**
62	**Tier 1 (as a percentage of total risk exposure amount)**	**28,35%**
63	**Total capital (as a percentage of total risk exposure amount)**	**28,35%**
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	10,26%
65	of which: capital conservation buffer requirement	1,25%
66	of which: countercyclical buffer requirement	0,0125%

Transitional Own Funds Disclosure		Amount as of 31/12/2017
		USD '000
67	of which: systemic risk buffer requirement	1,00%
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	N/A
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	20,35%
69	[non relevant in EU regulation]	
70	[non relevant in EU regulation]	
71	[non relevant in EU regulation]	
Amounts below the thresholds for deduction (before risk weighting)		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	N/A
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	N/A
74	Empty set in the EU	N/A
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	N/A
Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	N/A
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	N/A
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	N/A
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	N/A
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	N/A
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	N/A
82	Current cap on AT1 instruments subject to phase out arrangements	N/A
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	N/A
84	Current cap on T2 instruments subject to phase out arrangements	N/A
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	N/A