Alfa Capital
Holdings (Cyprus) Ltd

ALFA CAPITAL HOLDINGS (CYPRUS) LIMITED

Disclosures in accordance with Regulation (EU) No 575/2013

As at 31 December 2014

General Notes:

- Alfa Capital Holdings (Cyprus) Limited (hereafter referred to as “ACC” or “the Company”) has prepared the following disclosures.
- The disclosures are based on the audited financial statements of ACC for the year ended 31 December 2014.
- The information contained within the disclosures has been prepared for the purpose of explaining how risks are managed by the Company and to disclose the own funds requirements corresponding to these risks, in line with 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 “Regulation”). The disclosures have been reviewed by Senior Management.
- The disclosures have been verified by the Company’s external auditor.
- The Company does not undertake any securitisation activity.
- All figures are stated in US Dollars. Figures are rounded to the nearest thousand except where otherwise stated.

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1 Scope of Application

1.1 Policy Statement

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

1.2 Governing Law

The information disclosed below is in accordance with the Regulation focusing on Part Eight "Disclosures by Institutions" and Part Ten, Title I "Transitional Provisions".

1.3 Background

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

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

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

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

1.4 Solo Results

As at 31 December 2014, 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

2.1 Regulatory Capital

The Company's regulatory capital base consists of Common Equity Tier 1, which includes share capital, share premium, retained earnings and other reserves and other comprehensive income.

As at 31 December 2014, the Company's share capital consisted of 3,000,000 ordinary shares of EUR 1.71 each, which were issued at a premium. All ordinary shares rank equally and carry one vote. The other reserves relate to fair value reserves for available for sale investments and the other comprehensive income relates to "Contribution from shareholders". In addition to the above a table presenting the capital instruments' main features is presented in Appendix 1.

In line with the Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2013 ("the Commission Implementing Regulation") and specifically Article 2, the Company has applied the methodology referred to in Annex I of the Commission Implementing Regulation 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:

As per Balance Sheet	USD'000
Share Capital	6 017
Share Premium	173 997
Retained Earnings	372 643
Other Comprehensive Income	21 190
Fair Value Reserves for investments available for sale	(7 492)
Total Equity as per Balance Sheet	**566 355**
Less Intangible Assets	(27)
Capital Base as per Regulatory Reporting Requirements	**566 328**

In line with Article 492(3) of the Regulation as well as Article 5 of the Commission Implementing Regulation the Company presents below the transitional own funds disclosure template:

Own Fund Element	**Based on Transitional Provisions**	**Based on fully phased-in provisions**
	USD'000	
Share Capital	6 017	6 017
Share Premium	173 997	173 997
Retained Earnings brought forward	316 930	316 930
Profit for the year	55 713	55 713
Other Comprehensive Income	21 190	21 190
Fair Value Reserves for investments available for sale	(7 492)	(7 492)
Equity	**566 355**	**566 355**
Less Intangible Assets	(5)	(27)
Common Equity Tier 1 Capital	**566 350**	**566 328**
Less Intangible Assets – Deductions for Additional Tier 1	(22)	-
Total Tier 1 Capital / Total Capital	**566 328**	**566 328**

The table below illustrates the amount by which as at the end of the year the level of CET1 capital and Tier 1 capital exceeded the requirements set by Article 465 of the Regulation and paragraph 20 of Directive DI144-2014-15 on the discretions of the Cyprus Securities and Exchange Commission arising from Regulation (EU) No 575/2013:

	Company Ratio	**As per provisions of DI144-2014-15**
CET1	11,31%	4,5%
Tier 1	11,31%	6%

The Company did not have any instruments that qualified as Common Equity Tier 1 instruments, Additional Tier 1 instruments and Tier 2 instruments by virtue of applying Article 484 of the Regulation on grandfathering.

The table below presents the Company's capital base as at 31 December 2014.

	Year Ended 31/12/2014
Original Own Funds	**USD'000**
Share Capital	6 017
Share Premium	173 997
Reserves	316 930
Audited Profit for the year	55 713
Other Comprehensive Income	21 190
	573 847
Fair Value Reserve for investments available for sale	(7 492)
	566 355
Less: Intangible Assets	(27)
Total Capital	**566 328**

3 Risk and Capital Management

3.1 Responsibility for the management of risks

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

The Company's risk management framework aims to create, implement and sustain adequate policies and procedures designed to identify and manage all risks related to activities of the Company. The overall risk management arrangements and procedures in place within the Company are considered by the Board of Directors as adequate with regard to the Company's profile and strategy and in line with the principle of proportionality.

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

During 2014, matters related to risk were discussed during the Board of Directors meetings. Such matters included, but were not limited to, deficiencies in the risk management framework identified during the year's internal audit, the Company's capital adequacy ratio and the implications for the Company of changes in the regulatory framework.

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

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

Towards the end of the year the Company set up a Risk Committee. The Company is in the process of documenting the charter of its Risk Committee and will ensure that the said charter is in line with the requirements of Directive DI144-2014-14 of the Cyprus Securities and Exchange Commission for the Prudential Supervision of Investment Firms. The Risk Committee meets as and when required to carry out its functions and at least on a quarterly basis. During 2014 the Risk Committee met once.

3.2 Governance Arrangements

The management body of the Company is its Board of Directors. The recruitment of the members of the Board of Directors follows the Guidelines issued by the Cyprus Securities and Exchange Commission on recruitment of Directors. The assessment of new Directors is performed by the Board of Directors and the approval is hence provided by all Directors collectively.

The Company is in the process of preparing its Board of Director's Recruitment policy ("the policy") which will address among others the diversity of the members of the Board of Directors. It is noted that the objective of the said policy is that the Board collectively have a wide range of experiences, backgrounds and knowledge to ensure that they are able to adequately manage the Company. Additionally, the Company aims and ensures that it provides equal opportunities to all Directors regardless of their gender, age and nationality.

The Company's management body includes Executive and Non-Executive Directors as well as independent Directors. The Company's Board of Directors has varied experiences and backgrounds, including accounting, legal, banking, investments, risk management, etc. Additionally, each independent Director has a strong background in his/her field adding a strong value to the Company's Board of Directors. All the Company's Executive and Non-Executive Directors hold directorships only within the Group. The independent Non-Executive Directors as at the year-end held 6 directorships.

3.3 Internal Capital Adequacy Assessment Process

The Company uses the results of its most recent Internal Capital Adequacy Assessment Process ("ICAAP") exercise as a measurement of its internal capital requirements. In light of the new regulatory framework, the Company is in process of updating its ICAAP policy and report to adopt the new regulatory requirements. The Company will apply methodologies which are approved by the regulatory framework in order to calculate the capital requirements for Pillar 1 risks, as well as additional capital requirements for those risks which are either partially covered, or not addressed under Pillar 1 at all.

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

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

- Identifying risks and assessing the management of those risks.
- Documenting the techniques used for the quantification of the risks identified.
- Calculating the amount of regulatory and internal capital required for each type of risk identified.

  Determining the need for additional capital buffers to ensure the Company has enough capital over a cycle as well as in the case of a stressed scenario.

4 Own Funds Requirements

The Company follows the Standardised Approach for the measurement of the Pillar 1 capital requirements for Credit and Market Risk, and the Basic Indicator Approach for the calculation of Operational Risk capital requirements. The Pillar 1 own funds requirements of the Company as at 31 December 2014 are shown in the table below:

	Own Funds Requirements
	USD'000
Credit and Counterparty Credit Risk (includes capital requirements for CVA risk charge)	88 280
Position risk	146 601
Commodities Risk	43 544
Foreign Exchange Risk	30 282
Large exposures in the trading book exceeding the limits	84 788
Operational Risk	7 212
Total	**400 707**

5 Credit and Counterparty Credit Risk

5.1 Definition

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

5.2 Management of Credit and Counterparty Credit Risk

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

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

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

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

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

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

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

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

5.3 Value of Exposures

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

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

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

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

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

Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency and other derivative financial instruments. 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 511 950 thousand resulting in a final exposure amount of USD 577 416 thousand. It is noted that no netting or credit risk mitigation techniques are applied for derivative contracts.

5.4 Past due and Impaired

Past Due

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

Impairment of financial assets carried at amortised cost

Impairment losses are recognised 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.

As trading securities are carried at fair values based on observable market data, the Company does not analyse or monitor impairment indicators.

5.5 Value Adjustments and Provisions for impaired exposures

In 2014 the provision for impairment amounting to USD 25 308 thousand was estimated by management on the basis of considering financial information of investees and related to investments in companies within the Group. It is noted that since 2013 there was no movement in the provision for impairment of investments in companies within the Group.

Provisions for impairment of investments held to maturity during the year amounted to USD 174 thousand.

Given the above, the Company's exposures after accounting offsets and without taking into account the effects of Credit Risk Mitigation ("CRM") and the average amount of exposures for the year ended 31 December 2014, are as follows:

	Value of Exposures before CRM and after accounting offsets	Value Adjustments	Average Value of Exposures
	USD'000		
Corporates	1 021 283	-	1 517 290
Institutions	1 366 746	-	1 499 607
Public Sector Entities	74	-	6
Equity	21 998	-	1 833
Other	4 296	-	1 460
Total	**2 414 397**	**-**	**3 020 196**

The following tables present a breakdown of the Company's exposures to Credit Risk, based on the requirements of Part Eight, Title II "Technical Criteria on Transparency and Disclosure", Article 442 of the Regulation.

5.6 Own Funds Requirements against Exposures

The table below presents the own funds requirements for each of the applicable exposure classes set in Article 112:

Asset Class	RWA	Capital Requirement
	USD'000	
Institutions	239 518	19 161
Corporates	687 254	54 980
Others	4 295	344
Equity	25 984	2 079
Public Sector Entities	74	6
Total Exposures	**957 125**	**76 570**

5.7 Exposures by geographic distribution

	Europe	Other	Russia
	USD'000		
Corporates	97 371	415 969	507 943
Institution	838 372	1	528 373
Other	4 296	-	0
Equity	0	1	21 997
Public Sector Entities	74	-	-
Grand Total	**940 113**	**415 971**	**1 058 313**

5.8 Exposures by residual maturity

Assets Class	< 1 month	1-3 < months	3-12 < months	1-5 < years
	USD'000			
Corporates	967 782	17 523	22 421	13 557
Institution	920 857	183 923	213 321	48 645
Other	4 296	-	-	-
Equity	21 998	-	-	-
Public Sector Entities	74	-	-	-
Total	**1 915 007**	**201 446**	**235 742**	**62 202**

5.9 Exposures by significant industries

Industry	Corporates	Institution	Other	Equity	Public Sector Entities
	USD'000				
Bank	-	945 809	-	2 656	-
Finance- Investment Services	333 444	420 667	-	-	-
Financial	333 537	270	-	1	-
Oil Companies	112 549	-	-	8 486	-
Other	24 249	-	4 295	10 855	74
Retail	395	-	-	-	-
SPVs	96 902	-	-	-	-
Telecom Services	29 296	-	-	-	-
Metal-Iron	90 911	-	-	-	-
Grand Total	**1 021 283**	**1 366 746**	**4 295**	**21 998**	**74**

It is noted that there were no recoveries recorded directly to the income statement during the year.

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

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

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

	CQS					
Asset Class	**1**	**2**	**3**	**4**	**5**	**NR**
	USD'000					
Corporates	-	-	90 917	-	-	930 366
Institution	375 108	26 041	520 105	157	389 775	55 560
Other	-	-	-	-	-	4 295
Equity	-	-	2 656	-	-	19 341
Public Sector Entities	-	-	-	-	-	74
Grand Total	**375 108**	**26 041**	**613 678**	**157**	**389 775**	**1 009 636**

The Company uses the standard association of the credit ratings to the credit quality steps.

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

5.11 Credit Risk Mitigation

Credit risk mitigation is only applied for repurchase and reverse repurchase agreements.

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

Continuous monitoring of such collateral is performed by the Company's Back Office, which checks that the collateral to be received meets the specified criteria, prior to entering into a repurchase or reverse repurchase transaction.

It is noted that no collateral is received against derivative exposures thus no credit risk mitigation techniques are applied for such exposures.

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

CQS	Value of Exposure before credit risk mitigation	Provisions	Value of Exposure after credit risk mitigation
	USD'000		
1	375 108	-	369 708
2	26 041	-	10 783
3	613 679	-	435 414
4	157	-	157
5	389 775	-	109 519
NR	1 009 637	-	626 607
Total Exposures	**2 414 397**	**-**	**1 552 188**

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

5.12 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.

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

5.13 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 (a): by attaching current market values to contracts, the current replacement cost of all contracts with positive values is obtained.
- Step (b): to obtain a figure for the potential future credit exposure, the notional amounts or underlying values are multiplied by the percentages presented under Part Three, Title II, Chapter 6 of the Regulation.
- Step (c): the sum of the current replacement cost and the potential future credit exposure is the exposure value.

The FCCM requires that haircuts are assigned to the values of the exposure and collateral, in order to arrive at the adjusted exposure and collateral amounts. Haircuts are determined based on the type of exposure and collateral, and are also applied for any foreign currency and maturity mismatches, as per the provisions of 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.

6 Market Risk

6.1 Management of Market Risk

With regards to the management of market risk, the Senior Management and the Risk Management department are responsible for:

- Establishing prudent methodologies for limit setting so as to control the exposures of the Company;
- Establishing a limits framework for every 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 Value at Risk ("VaR") and stress testing calculations, which are two commonly used tools in finance for quantitative risk measurement and management. This allows Management to closely manage the business by ascertaining maximum losses (with given probabilities) as well as the robustness of the business in stressed situations.

In the absence of approved limits, trading activity is not undertaken and no new products are traded.

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

6.2 Market Risk Management – Trading Book

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

The Risk Management department monitors all trading positions on a daily basis to ensure that all quantitative limits are adhered to. The following limits have been established and it is worth noting that the list below illustrates all the possible risk measures that the Company may apply to mitigate market 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 - This is the net long or short foreign currency position.
- Total Net Short Position - This is the net short position of all currencies.
- Net Open Position by currency - This is the net market value of positions in each currency, expressed in the local currency.
- Maximum Maturity - Maximum maturity of a transaction calculated from deal date.

- Counterparty Limits - Utilization of counterparty limits taking into account the market value of the transactions.
- FX Settlement Limits - This limit captures the settlement risk of FX transactions. It is set in order to control the exposure to a particular counterparty.

Market Risk arising from Bond Securities, Bond Futures, Interest Rate Futures, Interest Rate Swaps, Credit Default Swaps:

- Position Limits - This is the maximum allowable exposure for each specific instrument within a specific portfolio. Different limits may be set for intra-day and overnight positions.
- Maximum Holding Period Limit - The maximum period the trader can hold a position.
- Maximum Maturity - Maximum maturity of the transaction calculated from deal date.
- Counterparty Exposure Limits - Limits are set for each counterparty collectively. Utilization of exposure limits takes into account the market value of the deal, as well as the future fluctuation in its value.

Market Risk arising from Equity positions:

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

6.3 Market Risk Management – Banking Book

Equity Price Risk of 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 the banking book and the trading book positions using the methods already mentioned above.

6.4 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 on a daily basis and sets limits on the level of mismatch on interest rate repricing that may be undertaken.

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

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-monetary	Total
	USD'000					
Total financial assets	1 091 262	64 362	893 464	330 134	38 680	2 417 902
Total financial liabilities	631 198	65 613	614 492	144 848	380 494	1 836 645
Net interest sensitivity gap	**460 064**	**(1 251)**	**278 972**	**185 286**	**(341 814)**	**581 257**

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 2014, if interest rates at that date had been 300 basis points lower/higher (2013: 100 basis points lower/higher) with all other variables held constant, profit for the year would have been USD 6 836 thousand lower/higher (2013: USD 680 thousand lower/higher). The Company monitors interest rates for its financial instruments.

6.5 Market Risk Measurement

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

As at 31 December 2014 the capital requirements are as follows:

Market Risk			
Position Risk	USD'000		
Traded Debt Instruments	Specific Risk	59 804	
	General Risk	18 394	
	Non-Delta Risk	167	**78 365**
Equity Risk	Specific Risk	34 135	
	General Risk	34 102	**68 237**
Commodities Risk*			**43 544**
Foreign Exchange Risk*			**30 282**
Large Exposures in the Trading Book			**84 787**
Market Risk Capital Requirement			**305 215**

*Includes Non Delta Risk

6.6 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 2014, were the following

Investments	USD'000
Investments available for sale	10 854
Investments held to maturity	8 660
Investments in companies within the Group at cost	27 966

Investments in Companies within the Group

During the year 2014, the Company had the following investments in companies within the Alfa Banking Group:

	31 December 2014
Group Companies	**USD'000**
AO Alfa-Bank (Russian Federation, 0.1136%)	27 964
Other	2
Impairments	(25 308)
Total Investments	**2 658**

The provision for impairment in the amount of USD 25 308 thousand was estimated by Management on the basis of considering financial information of the investees.

Investments in companies outside the Group – Available for Sale

During the previous year the Company purchased a participating share in an investment fund which is domiciled in Russia. The investment has been classified as Available for Sale in the amount of USD 10 854 thousand.

During the year, the Fair Value reserves for the investments available for sale amounted to USD 7 492 thousand.

Investments available for sale are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year. Dividends on available for sale equity instruments are recognised in profit or loss for the year when the Company's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is removed from other comprehensive income to profit or loss for the year.

Investments held to maturity

Investments held to maturity comprise of Corporate Eurobonds issued by large Russian companies; these are freely tradable internationally. As at 31 December 2014 these securities had a maturity date in May 2020, coupon rates 7,00% and yields to maturity 26,40%.

The value of the investments held to maturity as at 31 December 2014 was as follows:

	31 December 2014
Investments Held to Maturity	USD '000
Investments held to maturity	8 660
Provision for impairment of investments held to maturity	(174)

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

7 Operational Risk

7.1 Introduction

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

7.2 Management of Operational Risk

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

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

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

7.3 Assessment of Operational Risk

The Company adopts the Basic Indicator Approach ("BIA") to Operational Risk. 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.

The Company's Operational Risk own funds requirement arose to USD 7 212 thousand.

8 Remuneration Policy and Practices

The Company has a Remuneration Policy which complies with the requirements and regulations of the Cyprus Securities and Exchange Commission. In order to update the Company's Remuneration Policy, the Company has sourced the assistance of an external consultant.

As at the end of the year the Company did not have a Remuneration Committee and instead the responsibilities of the Remuneration Committee were performed by the Board of Directors. It is noted that the Company established a Remuneration Committee during 2015 with the aim of assisting the Board on matters related to remuneration. During 2014 the Board of Directors met four times and discussed, among others, matters related to remuneration.

The Remuneration Policy forms an integral part of the Company's corporate governance practice and is developed in accordance with its operational model and business strategy.

Its main aim is to align individual employees' objectives with the Company's long-term business objectives and strategy, as well as the long-term value creation for shareholders.

Except where otherwise stated, the disclosures presented below apply to top management executives, risk takers, individuals whose total remuneration takes them into the same remuneration level as the aforementioned categories, and individuals whose professional activities have a significant impact on the Company's risk profile.

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

- To promote sound and effective risk management and not encourage risk-taking that exceeds the level tolerated by the Company;
- To align compensation with the business strategy, objectives, values and long-term interests of the Company and adopt measures which avoid conflicts of interest between employees, the Company and its clients.
- There shall be no variable remuneration awarded, as such avoiding an emphasis on short-term gains which may contradict the clients' best interests. Therefore, remuneration shall not be directly linked to criteria relating, for example, to the sale of specific financial instruments or of a specific category of financial instruments, to sale volumes, or to the short-term performance of instruments traded for the Company's own portfolio.

The Company does not provide variable remuneration to employees. It is noted that as at 31 December 2014, there was no outstanding deferred remuneration and no share options were offered. Furthermore, there were no sign-on or severance payments during the year.

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

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

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

Performance appraisals are conducted on an annual basis. In order to perform performance appraisals key objectives / goals are set. Performance is then assessed against these objectives / goals. If deemed appropriate to propose salary revisions for specific persons, the Company's Managing Director 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 Board of Directors.

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

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

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

The 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
Directors and Senior Management	597	10
Front Office	418	7

During the reporting period there were no individuals remunerated EUR 1 million or more.

The Company has not been required to disclose the total remuneration for each member of the Board of Directors or senior management and thus such disclosures have not been made.

Appendix 1: Main Features of Common Equity tier 1 Instruments

	Capital instruments main features template	
1	ISSUER	N/A
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	N/A
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)	148.269.429,92
9	Nominal amount of instrument	1,71
9a	Issue price	N/A
9b	Redemption price	N/A
10	Accounting classification	N/A
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)	N/A
20b	Fully discretionary, partially discretionary or mandatory (in items of amount)	N/A
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 trade	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

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