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Dragon Capital (Cyprus) Limited

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

As at 31 December 2013

authorised as Cypriot Investment Firm Regulated by the Cyprus Securities and Exchange Commission, License Number 112/10

May 2014

This report pertains to the "Disclosure and Market Discipline of Investment Firms" regulatory obligation as stipulated in Chapter 7 of Cyprus Securities and Exchange Commission's (CySEC's) Directive DI144-2007-05.
Under this regulatory obligation the firm is required to disclose information relating to the capital it holds and each material category of risk it faces in order to assist users of its accounts and to encourage market discipline. These disclosures aim to provide information on the risk exposures faced by the firm and the risk assessment process it has in place to monitor these exposures. The risk management objectives and policies of DRAGON CAPITAL (CYPRUS) LIMITED (hereinafter the "Company") are disclosed for each applicable category of risk, including the risks referred to under points 1 to 15 of the Appendix XII of CySEC's Directive DI144-2007-05 as these apply to the Company's current risk exposures.

If risks referred to under points 1 to 15 do not apply, no reference is made.

Frequency
The Firm will be making these disclosures annually.

Media and Location
The disclosure will be published on our website: http://dragon-capital.com/en/about-us/dccl.

1. Overview

The EU Capital Requirements Directive ("CRD") created a revised regulatory framework (commonly known as Basel II) governing how much capital firms are required to maintain.

The main purpose of the Basel II revisions was to make the framework more risk sensitive and representative of actual risk management practices. The new framework consists of three Pillars:

- Pillar I sets out the new minimum capital requirements firms are required to meet;
- Pillar II requires firms to assess their capital requirements in light of any specific risks not captured in the Pillar One calculations; and
- Pillar III seeks to improve market discipline by requiring firms to publish certain details of their risks, capital and risk management.

The Company has prepared these disclosures (hereinafter the "Pillar III disclosures") in accordance with the requirements of the Directive DI144-2007-05 of 2012 for the Capital Requirements of Investment Firms ('the Directive') issued by the Cyprus Securities and Exchange Commission. The Directive implements the European Union's Capital Requirements Directive. The Directive provides that an investment firm may omit one or more of the disclosures if it believes that the information is immaterial. Materiality is based on the criterion that the omission or misstatement of information would be likely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions.

Where the Company has considered a disclosure to be immaterial, it has stated this in the document.

The Directive also permits investment firms to omit one or more of the required disclosures if it believes that the information is regarded as confidential or proprietary. The Directive defines proprietary as if sharing that information with the public would undermine its competitive position. It may include information on products or systems which, if shared with competitors, would render an investment firm's investments therein less valuable.

Confidential information is defined as "information shall be regarded as confidential if there are obligations to customers or other counterparty relationships binding an investment firm to confidentiality". Where the Company has omitted information for either of these two reasons, it has stated this in the relevant section and the reasons for this.

2. Location and Frequency of Disclosure

The Company intends to make its Pillar III disclosures annually in a document separate from the financial statements. The disclosures will be uploaded onto the website of the Company.
These disclosures are based on the financial position of the Company as at 31 December 2013 according to the Company's audited financial statements.
The Company has commissioned auditors PricewaterhouseCoopers Ltd to verify its Pillar III disclosures. The Company is required by the Directive to provide a copy of the auditor's verification report to CySEC within five months of the calendar year-end.

3. Scope of Disclosure

The Company is making the disclosures on an individual basis.

4. Capital Management

The primary objective of the Company's capital management is to ensure that the Company complies with externally imposed capital requirements and that the Company maintains healthy capital ratios in order to support its business and to maximise shareholders' value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities.

The Cyprus Securities and Exchange Commission requires each investment firm to maintain a minimum ratio of capital to risk weighted assets of 8% (the "Capital Adequacy Ratio"). The CySEC may impose additional capital requirements for risks not covered by Pillar I.

During 2013 the Company had fully complied with all externally imposed capital requirements as shown in the table below.

	2013 **'000 USD**
Total Capital (Own Funds)	**27667**
Total capital requirements for credit, counterparty credit and dilution risks and free deliveries	910
Total capital requirements for settlement/delivery risk	1
Total capital requirements for position, foreign exchange and commodity risks	5434
Total capital requirements for operational risks	638
Total Risks	*6983*
Surplus Capital Against Total Risks	**20685**
Total Capital Adequacy Ratio	***31,70%***

5. Risk Management

5.1. The Company's Risk Management Framework

The Company's risk management framework aims to establish, implement and maintain adequate policies and procedures designed to manage any type of risks relating to the Company's activities. The current risk management framework sets the process applied in the activities of and across the Company, designed to identify potential events that may affect its business, to manage risks to be within its risk appetite, and to provide reasonable assurance regarding the achievement of its mission and its objectives.

Communication of information at all relevant levels of the Company is defined by the organisational structure which clearly specifies reporting lines and allocates functions and responsibilities; the Company maintains internal reporting at various risk types, frequency, and depth of reports.

The Board has responsibility for the monitoring of the internal control mechanisms of the Company. The following are part of the responsibilities of the Board of Directors in relation to risk management according to the Internal Operation Manual of the Company:

- The regular review (at least annually) of written reports concerning compliance, risk management and internal audit policies, procedures and work;
- To carry out regular reviews about the Company's risk management policies and procedures as implemented by the management.

The Board meets on a regular basis, and receives updates on risk and regulatory capital matters from management.

The Company has designed its risk management framework to be proportionate to the scale, nature and complexity of the business, and is comprised of the following components:
- Risk Management Department;
- General Manager;
- Board of Directors;
- Investment Committee.

5.2. Risk Categorisation

Credit Risk
Credit risk is the risk that the Company may suffer losses as a result of customers and/or counterparties defaulting on their contractual obligations. This risk primarily arises from client and counterparty trading.

The principles which govern the Company and its credit risk responsibilities and procedures are as follows:
- The Company operates within a well defined credit granting criteria;
- The Company has clear established process in place for approving new trading limits and amendments and reviews of limits already in existence;
- Risk Management must set trading limits before counterparties can begin trading;
- Only Head of Risk Management can approve the limits, which must be validated by the Company's risk committee;
- The Company has procedures in place which allow for timely monitoring of trading limits;
- The Company has escalation procedures in place for managing and resolving trading limit breaches.

The Company uses for accounting purposes the following definitions for "past due" and "impaired":
- A financial asset is past due when counterparty has failed to make a payment when it was contractually due. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A debt is impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the liability (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the debt or the group of debts, that can be reliably estimated;
- An allowance for debt impairment is established if there is objective evidence that the Company will not be able to collect all amounts due according to the original due dates. The amount of provision is the difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate.

During the year there were no past due or impaired balances within financial assets classified in the loans and receivables category. It should also be noted that in 2013 the Company did not make any allowances/provisions for debt impairment.

Market Risk
Market risk is the risk associated with changes in market prices, i.e. changes in equity and fixed income instruments, which may have a direct impact on the Company's net income.

With regards to managing its exposure to market risk, the Company performs daily mark-to-market valuations on unsettled trades (which includes pending settlement) and traded positions, with the additional measure of stop-loss methodology in place. This very process of managing the exposure to market risk is performed independently of the business with the function housed within Risk Management.

Liquidity Risk
At present, due to low volumes and product coverage, the Company is of the opinion that liquidity risk exposure does not come into play.

Operational Risk
Operational risk is the risk of loss arising from fraud, unauthorized activities, error, omission, inefficiency, systems failure or external events. The Company manages its operational risk exposure, primarily through:

- Operational work-flow charts, which illustrate the entire work-flow from inception to closure, which identify manual and electronic processing, thus allowing the Company to make informed and balanced decision with regards to the effectiveness of current controls;
- Incident management logs, which document all incidents, financial and possible financial impact and the subsequent follow up / action plan;
- Risk reviews and assessment, performed by Risk Management Department.

6. Capital Resources

Company's Own Funds
The own funds of the Company are comprised entirely by Tier I capital. As at 31 December 2013, the level of own funds was at USD 27 667,000. Table 1 below shows a breakdown of the own funds. The Capital Adequacy Ratio at that time was 31,7%. The calculations of Capital Adequacy Ratio contain the information disclosed in the audited financial statements for the year ended 31 December 2013.

Own Funds	**2013** **'000 USD**
Share Capital	10
Share premium	20051
Retained earnings	7606
Deducting holdings of share capital of non-consolidated entities	-
Total Own Funds	***27667***

7. Credit, Market and Operational Risk Capital Requirements

The capital requirements for the three risks covered by Pillar I of the Directive are as follows:

	2013 '000 USD
Total capital requirements for credit, counterparty credit and dilution risks and free deliveries	910
Total capital requirements for settlement/delivery risk	1
Total capital requirements for position, foreign exchange and commodity risks	5434
Total capital requirements for operational risks	638
Total Risks	***6983***

Below we analyse the exposures and calculation of capital requirements for each risk mentioned in the table above.

7.1. Credit Risk

Exposure to credit risk	**2013 '000 USD**
Risk weighted assets:	
Cash	1675
Trade receivables & Other assets	667
Receivables for NDF	6232
Contribution to Investors Compensation Fund	111
Loan receivable	4607
Total risk exposure	*13292*
Credit Risk (8% of total risk weighted assets)	***910***

Standardised Credit Risk Exposure Class

The exposure classes under which the assets of the Company have been allocated under the Standardised Approach are as shown in the table below. There were no exposures to other risk classes available under the Standardised Approach.

Standardised Credit Risk Exposure Class	Net Position 2013 '000 USD	Risk Weighted Exposure 2013 '000 USD	8% of Risk Weighted Exposure 2013 '000 USD
Institutions	8516	4260	341
Corporates	38	18	1
Admin bodies	4623	6927	554
Other Items	114	171	14
Total	***13292***	***11376***	***910***

Exposures by Geographical Distribution, 2013, '000 USD

Country	Institutions	Corporates	Admin bodies	Other Items	Total
United Kingdom	3116	0	0	0	3116
Republic of Cyprus	3	12	171	6927	7114
Luxemburg	0	4	0	0	4
The Netherlands	0	1	0	0	1
Poland	406	0	0	0	406
Czech Republic	736	0	0	0	736
Total	**4260**	**18**	**171**	**6927**	**11376**

Exposures by Industry or Counterparty Type, 2013, '000 USD

Industry/ Counterparty Type	Institutions	Corporates	Admin bodies	Other Items	Total
Banking	4260	0	0	0	4260
Finance	0	0	0	6911	6911
Others	0	18	171	16	206
Total	***4260***	***18***	***171***	***6927***	**11376**

Exposures by Residual Maturity, 2013, '000 USD

Maturity	Institutions	Corporates	Admin bodies	Other Items	Total
Less than 1 year	18	4260	6927	0	11205
Indefinite maturity	0	0	0	171	171
Total	***18***	***4260***	***6927***	***171***	***11376***

Credit Assessments

The Company uses external ratings of Fitch as one of the eligible External Credit Assessment Institutions recognized by CySEC. The Company has chosen to use Fitch Ratings for all asset classes under the Standardised Approach. The use of Fitch Rating is in compliance with the requirements of the Directive, and is used consistently for all exposures in a specific asset class. These ratings are used for all relevant exposure classes if the exposure is rated under these ratings.

The exposures are classified into the above exposure classes, and are then ranked into respective credit quality steps that determine the risk weight to be used in accordance with the provisions of the Directive.

The Company uses the same external ratings technique for the items not included in the trading book when applicable.

Interest Rate Risk on Positions not Included in the Trading Book

Interest rate risk is the risk that movements in interest rates will have an adverse impact on the Company's income or the value of its portfolios of financial instruments. The Company's Risk Manager monitors the interest rate fluctuations on a continuous basis and acts accordingly.
As at 31 December 2013 the Company had no interest rate risk exposures as its non-trading book positions are insensitive to interest rate fluctuations.

7.2. Market Risk

The capital requirement for market risk consists of capital requirements for position risk (including traded debt instruments risk and equity risk) and foreign exchange risk.

	2012 '000 USD
Risk weighted capital requirement for:	
Traded debt instruments risk	557
Equity risk	2665
Foreign exchange risk	2212
Total capital requirement for market risk	***5434***

Position Risk

The Company's trading book exposure is presented in the table below.

	Net Position 2013 '000 USD	**Total Risk Weighted Position 2013 '000 USD**
Debt Instruments	***4643***	***557***
Equity	***33308***	***2665***
Total capital requirement for position risk		***3222***

Foreign Exchange Risk

The table below shows the Company's exposure to foreign exchange risk.

Exposure to foreign exchange risk	**Assets (Long) 2013 '000 USD**	**Liabilities (Short) 2013 '000 USD**	**Net Position 2013 '000 USD**
EUR	398	14	384
GBP	5894	0	5894
PLN	2234	270	1964
USD	22014	15173	6841
UAH	12901	3	12898
Total foreign exchange exposure	***43441***	***15460***	***27981***
Total capital requirement for foreign exchange risk			***2212***

7.3. Operational Risk

The Company considers the Basic Indicator Approach as the most appropriate method to assess its ongoing operational risk capital requirements. Accordingly, the Company applied the average, on a three year basis, of the net income calculated in accordance with the requirements of the Directive.

An operational risk capital charge of USD 638.000 has been calculated using the method mentioned above. In the following table we analyse the calculation of the capital requirements for Operational Risk utilising the Basic Indicator Approach.

Capital Requirement for Operational Risk (Basic Indicator Approach)	**2013 '000 USD**	**2012 '000 USD**	**2011 '000 USD**
Operating Income	*6908*	*5731*	*116*
Average over three years			*4252*
Total capital requirement for operational risk			***638***

8. Exposures in Equities Not Included in the Trading Book
The Company did not hold any equity securities not included in the trading book as at 31 December 2013.

9. Remuneration policy of the company

The remuneration policy of the Company is based upon personal performance of key management and its employees and general profitability of the company. For the years 2013 and 2012 the remuneration for key management and employees was as follows

Staff costs	**2013** **'000 USD**	**2012** **'000 USD**
Wages and salaries	*131*	*99*
Directors' salaries	*56*	*95*
Total staff costs	***187***	***194***