GPB FINANCIAL SERVICES LTD

Disclosures in accordance with Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012

YEAR ENDED 31 DECEMBER 2015

April 2016

Contents

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Independent Auditors' Report to the Cyprus Securities and Exchange Commission in respect of GPB Financial Services Ltd for the year ended 31 December 2015 pursuant to 32(1) of Directive 144-2014-14 of the Cyprus Securities and Exchange Commission for the prudential supervision of investment firms

1. We report in relation to the fair presentation of the disclosures of GPB Financial Services Ltd (the "Company") for the year ended 31 December 2015, required by paragraph 32(1) of Directive 144-2014-14 of the Cyprus Securities and Exchange Commission (the "CySEC") for the prudential supervision of Investment Firms (the "Directive"). The Disclosures, which are set out on the Company's website, are attached as an Appendix and have been initialed for identification purposes.

Respective responsibilities

2. The Company's Board of Directors is responsible for the preparation and fair presentation of the Disclosures in accordance with Part Eight of Regulation (EU) No 575/2013 (the "Regulation"). Our responsibility is 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.

Scope of work performed

3. We conducted our work in accordance with International Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information". This Standard requires that we plan and perform our work to obtain limited assurance whether any matters have come to our attention that cause us to believe that the Disclosures are not fairly presented, in all material respects, in accordance with the requirements of the Regulation. Our procedures included verifying, on a sample basis, the compliance of the Disclosures with the requirements of Part Eight of the Regulation, as well as obtaining evidence supporting certain of the amounts and notifications included in the Disclosures. Our procedures also included an assessment of any significant estimates made by the Company's Board of Directors in the preparation of the Disclosures. We believe that our procedures provide a reasonable basis for our conclusion.

4. The procedures performed do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, and hence we do not express any assurance other than the statement made below. Had we performed an audit or review in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

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Conclusion

5. Based on our work described in this report, nothing has come to our attention that causes us to believe that the Disclosures for the year ended 31 December 2015 are not fairly presented, in all material aspects, in accordance with the requirements of the Regulation

6. Our report is solely for the purpose as set out above and is not to be used for any other purpose or to be distributed to any other parties without our prior consent in writing. This report relates only to the Disclosures required pursuant to Part Eight of the Regulation and does not extend to any financial statements or other financial information of the Company.

Marios Lazarou
Certified Public Accountant and Registered Auditor
for and on behalf of

KPMG Limited
Certified Public Accountants and Registered Auditors

Nicosia, 25 April 2016

1 Introduction

According to the requirements stated in paragraph 1 of Article 431 of the European Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (collectively the "Regulation" or "CRR"), GPB Financial Services Ltd (the "Company") has an obligation to disclose information relating to risks and risk management policies and procedures on an annual basis. These disclosures must be included either in the financial statements of the Company, if these are published, or on its website. In addition, these disclosures must be verified by the external auditor of the Company. The Company will be responsible for submitting its external auditor's verification report to CySEC the latest within five months from the end of each financial year.

The disclosures are based on the audited financial statements of GPB Financial Services Ltd for the year ended 31 December 2015.

2 Background

GPB Financial Services Ltd is a wholly owned subsidiary of Gazprombank (OJSC). The Company was incorporated in Cyprus on February 24, 2009 as a limited liability company. Its main activity consists of the provision of Investment and Ancillary Services and Investment activities for the Financial Instruments under license number 113/10, dated January 27, 2010 and granted by the CySEC.

The Company's principal activity is the provision of the following investment services:

1. Reception and Transmission of orders in relation to one or more financial instruments
2. Execution of orders on behalf of clients
3. Dealing on own account
4. Investment advice
5. Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis
6. Placing of financial instruments without a firm commitment basis

The Company also provides the following ancillary services:

1. Safekeeping and administration of financial instruments, including custodianship and related services

2. Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction
3. Advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings
4. Foreign exchange services where these are connected to the provision of investment services
5. Investment research and financial analysis or other forms
6. Services related to underwriting

3 Method and Place of Disclosure of Information

The Company is making the disclosures on an individual (solo) basis. The Company has included its risk management disclosures as required by the Regulation on its website as it does not publish its financial statements. The Company has commissioned its independent auditors KPMG Limited to verify its Disclosures. The Company is required according to the Directive DI144-2014-14 of CySEC (the "Directive") to provide a copy of the auditor's verification report to CySEC, five months after the end of each financial year, at the latest.

4 Risk Management Framework and Structure

The Risk Management Function forms an integral part in the Company's day to day operations. As such, the Company has the necessary risk management systems to identify exposures to risk, establish appropriate ranges for exposures, measure these exposures and execute appropriate adjustments whenever exposure levels fall outside of target ranges. This is a continuous process and is subject to evaluation and revision to reflect new policies and information. The systems have the necessary controls in place to generate prudent and reliable valuation estimates which are provided to Senior Management regularly. Senior Management is primarily responsible for managing risks and for ensuring that the Company follows its strategic objectives.

5 Structure and Organization of the Risk Management Framework

In developing the risk management framework, the Company has placed great emphasis on establishing and recognising the appropriate responsibility for risk management at all levels of staff within the Company. For the Company, the purpose of managing risks is the prompt identification of any potential problems before they occur so that risk-handling activities may be planned and invoked as needed to mitigate adverse impacts and allow the Company to achieve overall objectives.

Taking into account the nature, scale and complexity of investment services and activities undertaken in the course of this business, the integrated objective of the distinct functions of Internal Audit, Risk Management and Compliance, the Accounting Department and all other operations departments, is to enhance the accuracy and overall effectiveness of the Company's risk management and monitoring structure.

5.1 Roles and Responsibilities

Board of Directors

- Define the risk tolerance of the Company
- Set acceptable risk levels according to the risk tolerance of the Company
- Ensure Senior Management takes the necessary steps to identify, assess, monitor and control these risks
- Approve and periodically review the risk management policy of the Company

Heads of Departments

- Develop and implement procedures and systems for managing risks in their area of expertise
- Perform regular identification and assessment of risks and controls within their area of expertise
- Report to Risk Management Operational risk events and losses in their areas of competence and actions taken to mitigate the risk of losses
- Ensure the proper training of their staff in order to avoid Legal and Compliance risks and promote the quality of the services the Company offers

Risk Management

- Establish, implement and maintain adequate risk management policies and procedures which identify the risks relating to the Company’s activities and processes
- Develop and maintain an effective risk identification, assessment, reporting and mitigation framework
- Develop and recommend action plans for the improvement of internal controls and the mitigation of risks
- Analyze for the Investment Committee the potential hazards associated with the recommended framework on which investment decisions/advice are based

Compliance Office

- Identify, assess, monitor and report on Compliance risk, i.e. Legal risk, Financial Loss or Reputation risk due to failure to comply with all applicable laws and regulations
- Set up internal policies and procedures to enhance the compliance of the Company with the applicable legislation
- Ensure that the information presented to the clients is fair, clear and not misleading
- Ensure that policies and procedures, as well as controls for the prevention of money laundering and terrorist financing are correctly applied and that proper information/reports are sent on time to CySEC (Anti-Money Laundering Compliance Officer)

Internal Audit

- Conduct independent appraisals of the Company's activities, functions and operations to ensure that an adequate framework of internal controls has been established and operates effectively

Accounting

- Monitor the day-to-day recording of all financial information
- Control all receipts and payments, internal management reporting and external financial reporting
- Calculate/report the capital adequacy requirement in accordance with the Regulation and CySEC's Directives

6 Governance arrangements

6.1 Board Recruitment and Diversity Policy

One of the BoD's main responsibilities is to identify, evaluate and select Board candidates and ensure appropriate succession planning. The persons proposed for the appointment should have specialised skills and/or knowledge to enhance the collective knowledge of the BoD and must be able to commit the necessary time and effort to fulfil their responsibilities. Prior to the appointment, the Company must obtain the approval of CySEC.

The potential candidates should possess the following skills/qualities:

- Specialised skills and/or knowledge in accounting, finance, banking, law, business administration or related subject.
- Integrity, honesty and the ability to generate public confidence.

- Demonstrated sound business judgment.
- Knowledge of financial matters including understanding financial statements and financial ratios.
- Knowledge of and experience with financial institutions.
- Risk management experience.
- The competencies and skills that the BoD considers each existing director to possess.

The Company recognises the benefits of having a diverse BoD which includes and makes use of differences in the skills, experience, background, race and gender between directors. A balance of these differences will be considered when determining the optimum composition of the BoD.

6.2 Skills and experience of the Board

For the year ended 31 December 2015, the Board consisted of four executive directors and two independent non - executive directors. The Company is emphasizing the significance of balancing skills and experience of the board members and ensures members are diverse in terms of age, nationality, gender, educational background and professional qualifications. Each member has unique skills and experiences that contribute to strategy design and effective problem solving. The following have been determined to be skills and characteristics of the Company's Board members:

- Knowledge of the Cyprus Investment Firm sector
- Business knowledge and experience
- Banking and financial management knowledge and experience (bankers, accountants, lawyers)
- Qualified accounting knowledge and experience
- Government and regulator linkages
- Banking linkages
- High repute and integrity in business and the community in general
- Have time availability
- Strong communication skills

6.3 Risk Committee

The Company did not establish a Risk Committee as it is not considered significant in terms of size, internal organisation and nature, scope and complexity of its activities.

6.4 Number of directorships held by members of the Board

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

Name of Director	Position within the Company	Directorships – Executive	Directorships – Non-Executive
Evanthia Kania	Executive	1	-
Eleni Paphiti	Executive	More than 5	-
Irina Chuprynenko	Executive	3	-
Dennis Avrouschenko	Executive	3	-
Andreas Aloneftis	Non-Executive	-	More than 5
Anastasios Televantides	Non-Executive	-	More than 5

6.5 Information flow on risk to the management body

The information flow on risk to the management body is achieved through the reports of the Risk Management department, the Internal Auditor, the Money Laundering Compliance Officer, the Compliance Officer, and any other reports or minutes prepared and presented to the Board (refer to Annex II).

7 Disclosures in Accordance with Part Eight of the Regulation

The adequacy of the Company's capital is monitored by reference to the rules established by the Basel Committee and adopted by CySEC. In 2014, CySEC has adopted the European Regulation No. 575/2013 on prudential requirements and issued Directive DI144-2014-15 on the discretions of CySEC arising from the Regulation and Directive 144-2014-14 for the prudential supervision of investment firms, adopting the relevant European Union Directive 2013/36/EU ("CRDIV"). Together the Regulation and Directive form the framework of Basel III. Basel III consists of three pillars: a) Minimum Capital Requirements (Pillar 1), b) Internal Capital Adequacy Assessment Process (Pillar 2) and c) Market Discipline (Pillar 3).

(a) Pillar 1 – Minimum Capital Requirements

The Company follows the Standardised Approach for measuring Credit and Market risk and the Basic Indicator Approach for the calculation of Operational risk. According to the Standardised Approach for

Credit risk, in calculating the minimum capital requirement, risk weights are assigned to exposures after the consideration of various mitigating factors, according to the exposure class to which they belong.

The Standardised measurement method for the capital requirement for Market FX risk nets off the Company's long and short positions in foreign currencies according to predefined models, to determine the capital requirement. For Operational risk, the Basic Indicator Approach calculates the average, on a three year basis, of net income to be used in the risk weighted assets calculation.

(b) Pillar 2 – The Internal Capital Adequacy Assessment Process (ICAAP)

The ICAAP aims at ensuring that adequate capital is in place to support any risk exposures of the Company, in addition to setting appropriate risk management, reporting and governance structures. Pillar 2 covers any risk not fully addressed under Pillar 1, such as Concentration risk, Reputation risk, Business and Strategic risk and any external factors affecting the Company.

Pillar 2 connects the regulatory capital requirements to the Company's Internal Capital Adequacy Assessment Process and to the reliability of its internal control structures. The function of Pillar 2, which includes the Supervisory Review Process (SREP), is to provide communication between supervisors and investment firms on a continuous basis and to evaluate how well investment firms are assessing their capital needs relative to their risks. If a deficiency arises, prompt and decisive action is taken to restore the appropriate relationship of capital to risk.

The Company implements the ICAAP requirements in accordance with the guidelines issued by the CySEC and has a procedure to update the ICAAP document on an annual basis. The ICAAP process includes, among other things, risk identification and assessment, stress testing and capital allocation for Pillar 2 purposes.

(c) Pillar 3 – Market Discipline

Market Discipline requires the disclosure of information regarding the risk management policies of the Company, as well as the results of the calculations of minimum capital requirements, together with concise information as to the composition of own funds and remuneration of the risk takers of the Company.

7.1 Capital Management and Preservation

The Company's eligible own funds are comprised of Common Equity Tier 1 Capital. Intangible assets (computer software) are deducted when deriving Common Equity Tier 1 capital.

As at 31st of December 2015, the Company's eligible own funds consisted of the following:

	USD '000
	31 Dec 2015
Common Equity Tier 1 Capital	
Share Capital	5.301
Retained Earnings	29.986
Audited Income for year ended 31/12/2015	2.377
Intangible Assets	(1.945)
Unrealized gains of available for sales assets	14
Total Common Equity Tier 1 Capital	**35.733**
Additional Tier 1 Capital	**-**
Total Tier 1	**35.733**
Tier 2 Capital	**-**
Total Regulatory Capital	**35.733**

The primary objective of the Company's capital supervision is to ensure compliance with regulatory 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 allocations and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities on an ongoing basis. The monitoring of the capital level is performed on an ongoing basis. Particularly, the Accounting Department monitors on an ongoing basis every important change in assets and, when necessary, assesses risk weighted assets and the capital required for each class of assets.

The Company calculates the risk weighted exposure amounts in accordance with Chapter 2 of Title II of the Regulation. The Company also ensures that it maintains a minimum ratio of capital to risk weighted assets of 8%.

The Company's capital position as per the year-end, is analysed as follows:

	USD ‘000 31 Dec 2015
Total Regulatory Capital	
Capital Requirements	
Credit, Counterparty Credit and Dilution Risks and Free Deliveries Capital Requirement	710
Position, Foreign Exchange, and Commodities Capital Requirement	1.320
Operational Risk Capital Requirement	1.540
Total Capital Requirements	**3.570**
Surplus Capital Against Total Risks	**32.163**
Total Capital Adequacy Ratio	**80,07%**

8 Credit and Counterparty Risk

8.1 Definition

This risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The Company has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and monitors its receivables on a continuous basis. Cash balances are held mainly in current accounts in Russian and European banks and financial counterparties and the Company has policies to limit the amount of Credit risk exposure to any financial institution.

8.2 Monitoring Credit and Counterparty Risk

The Risk Management Department is responsible for managing and monitoring Credit risk. In coordination with the Head of each department, the Risk Management Department designs and implements Credit risk policies and guidelines. It is responsible for establishing methodologies of measuring Credit risk and, whenever necessary, informs the Board about the level of Credit risk and actions taken to mitigate its effect.

8.3 Credit and Counterparty Risk Mitigation

The Company considers that there is a certain element of Credit Counterparty risk which emanates from trading operations. For this purpose the Company has established methodologies and techniques to manage and monitor Credit and Counterparty risk.

Management assigns counterparty trading limits for every counterparty it intends to trade with in order to limit the Company's exposure to a particular counterparty. In order to approve a counterparty limit the Company has established the Credit risk assessment methodology for evaluating the counterparty's credit strength based on required trading limits. This method analyzes the counterparty's credit quality based on an analysis of financial and non-financial information. Counterparty limits are set using the VaR methodology and are reviewed annually.

The Company has established a number of other measures, to minimize Settlement risk and indirectly Counterparty risk. Such measures include performing transactions only on a Delivery Versus Payment ("DVP") basis, or requesting pre-payments or pre-deliveries. In certain cases where DVP is not possible with certain counterparties the Company assigns settlement (or free delivery limits) limits based on the counterparty's credit quality.

The Company, in calculating "Credit, Counterparty Credit and Dilution Risks and Free Deliveries", adopts the Standardised approach and classifies its exposures into the following exposure classes:

	USD '000 **31 Dec 2015**	**USD '000** **31 Dec 2015**	**USD '000** **31 Dec 2015**
Credit, Counterparty Credit and Dilution Risks and Free Deliveries Capital Requirement – Standardized Method	Original Exposure/ Pre-conversion Factors	Risk Weighted Exposure Amount	Capital Requirements
Exposures to Institutions	27.323	5.673	454
Exposures to Corporates	2.850	2.850	228
Exposures to Public Sector Entities	113	113	9
Equity	14	14	1
Other items	162	162	13
High Risk	39	58	5
Total	**30.501**	**8.870**	**710**

Geographical distribution of exposures by exposure class:

	USD '000 31 Dec 2015	USD '000 31 Dec 2015	USD '000 31 Dec 2015	USD '000 31 Dec 2015	USD '000 31 Dec 2015	USD '000 31 Dec 2015	USD '000 31 Dec 2015	USD '000 31 Dec 2015
Exposure Class	Switzerland	Cyprus	Luxemburg	Russia	United States	United Kingdom	Cayman Island	**Total**
Exposures to Institutions	688	60	26.538	0	1	36	0	**27.323**
Exposures to Corporates	0	24	0	2.762	0	64	0	**2.850**
Exposures to Public Sector Entities	0	113	0	0	0	0	0	**113**
Equity exposures	0	14	0	0	0	0	0	**14**
Other items	0	162	0	0	0	0	0	**162**
High Risk	0	0	0	0	0	0	39	**39**
Total	**688**	**373**	**26.538**	**2.762**	**1**	**100**	**39**	***30.501***

Distribution of exposures by industry:

	USD '000 31 Dec 2015	USD '000 31 Dec 2015	USD '000 31 Dec 2015
Exposure Class	Banking / Financial Services	Other	**Total**
Exposures to Institutions	27.323	0	**27.323**
Exposures to Corporates	2.763	87	**2.850**
Exposures to Public Sector Entities	0	113	**113**
Equity exposures	14	0	**14**
Other items	0	162	**162**
High Risk	0	39	**39**
Total	**30.100**	**401**	***30.501***

At each reporting date the Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is/are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, indications that a borrower or issuer will enter bankruptcy or other observable data relating to a group of assets, such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Management does not expect any losses from non-performance by these counterparties. There was no past due or impaired amount to date by any counterparty.

Breakdown of exposures by residual maturity and average exposure for 2015:

	USD '000	**USD '000**	**USD '000**	**USD '000**
	31 Dec 2015	**31 Dec 2015**	**31 Dec 2015**	**31 Dec 2015**
Exposure Class	Average Exposure for the period	Residual Maturity ≤ 3 months	Residual Maturity > 3 months	No Maturity
Exposures to Institutions	30.904	12.268	15.055	0
Exposures to Corporates	2.186	2.763	87	0
Exposures to Public Sector Entities	113	0	113	0
Equity exposures	14	0	0	14
Other items	162	0	162	0
High Risk	19	39	0	0
Total	**33.398**	**15.070**	**15.417**	**14**

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

The Company has chosen to use Fitch Ratings for all asset classes under the Standardised Approach. The use of Fitch 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 rating from the specific institution, the ratings of Moody's Investor Services are used, and then those of Standard and Poor's Rating Services. The Group will continue to use the same approach for its entire portfolio unless there are material differences in the way it performs its business. The Company considers that a certain element of Credit risk exists regarding the Company's cash. In order to minimize the possibility of loss, cash amounts are mostly held with reputable banks and financial institutions.

A breakdown of the Company's Credit risk exposures by Credit Quality Step of counterparties is shown below:

	USD '000 31 Dec 2015	USD '000 31 Dec 2015	USD '000 31 Dec 2015	USD '000 31 Dec 2015	USD '000 31 Dec 2015	USD '000 31 Dec 2015	USD '000 31 Dec 2015
Exposure Class	**CQS 2**	**CQS 4**	**CQS 5**	**CQS 6**	**Unrated**	**N/A**	**Total**
Exposures to Institutions	1	688	60	0	26.574	0	**27.323**
Exposures to Corporates	0	1.757	0	0	1.093	0	**2.850**
Exposures to Public Sector Entities	0	0	0	0	113	0	**113**
Equity exposures	0	0	0	14	0	0	**14**
Other items	0	0	0	0	0	162	**162**
High Risk	0	0	0	0	39	0	**39**
Total	**1**	**2.445**	**60**	**14**	**27.819**	**162**	**30.501**

9 Market Risk

Market risk is the risk that changes in market prices such as interest rates, equity prices and foreign exchange rates will affect the Company's income or the value of its holdings of financial instruments. The objective of Market risk management is to manage and control Market risk exposures within acceptable parameters while optimizing the return on risk. The Investment Committee of the Company sets Market risk limits at a business level. The purpose of the limits is to assist senior management in controlling the overall risk profile.

The following table analyses the Company's capital requirement on its Market risk exposures at year end:

	USD '000 31 Dec 2015		USD '000 31 Dec 2015
Position, Foreign Exchange and Commodities Capital Requirement – Standardized Method	Net Positions		Capital Requirement
	Long	Short	
Traded Debt Instruments in Trading Book	0	0	0
Equities in Trading Book	6.811	0	1.090
Position Risk in Commodities	0	0	0
Total Positions in Non-reporting Currencies for FX	2.883	0	230
Excess of Large Exposures in Trading Book	0	0	0
Total	**9.694**	**0**	**1.320**

9.1 Equity Risk

During the year the Company performed a small number of trades in equities from the over-the-counter equity market. Due to the short-term nature of these transactions, the Company decided to book them in the trading book. For measuring the Market Equity risk arising from these investments and the corresponding capital requirement, the Company used the Standardised Approach. As at year end, the Company's total capital requirement resulting from its open equity positions amounted to USD 1.090 thousand.

9.2 Currency Risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates, and arises when future commercial transactions and recognised assets and liabilities are denominated in a currency other than the Company's functional currency. The Company's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

The Company's functional and reporting currency for both financial and regulatory reporting purposes is the US Dollar. As at year end, the Company was exposed to Market Currency risk resulting primarily from its long positions in the currencies indicated below. The capital requirement for Currency risk at year end was USD 230 thousand.

	USD '000 31 Dec 2015	**USD '000 31 Dec 2015**
Currency	**Net Long**	**Net Short**
EUR	461	-
GBP	2.233	-
RUB	189	-
Total	**2.883**	**-**

9.3 Interest Rate Risk

Interest rate risk is not considered material, since the effect of a small shift of the base interest rate will not have a material impact on the overall results of the Company. The Company has interest rate-bearing assets, which mainly comprise of short term deposits. The Company ensures to obtain competitive market interest rates for its deposits and its credit line facility with parent Company.

9.4 Liquidity Risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets.

10 Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk can be described as the potential for loss as a consequence of human failure or the failure of a process and/or technology, as well as external events incurred while pursuing the Company's objectives.

The Company adopted the Basic Indicator Approach for measuring Operational risk. The Basic Indicator Approach calculates the average, on a three year basis, of net income to be used in the risk weighted assets calculation. This includes the average over a 3 year period of brokerage, underwriting and investment advice income, dividend income and other revenues, among others. The capital requirement for Operational risk is equal to 15% of the relevant indicator defined in Article 316 of the Regulation.

The Company manages Operational risk through a control-based environment in which processes are documented and transactions are reconciled and monitored. There is a procedure for the identification and effective management of incidents and problems. The Company has in place a fully operational Disaster Recovery site supported with business continuity metrics. All measures were within appetite at year end.

In the following table there is an analysis of the capital requirements for Operational risk under the Basic Indicator Approach:

Operational Risk Capital Requirements	USD '000 31 Dec 2013	USD '000 31 Dec 2014	USD '000 31 Dec 2015	USD '000 Average	USD '000 Capital Requirement
Basic Indicator approach for Operational risk calculation	**20.756**	**5.007**	**5.041**	**10.268**	**1.540**

11 Hedging Policies

Under the current circumstances and according to the Company's strategies and objectives, the management of the Company does not establish specific hedging strategies, although it might do so and adopt such strategies should the Company or market circumstances change.

12 Leverage ratio

The Leverage ratio is a new monitoring tool which will allow competent authorities to assess the risk of excessive leverage in their respective institutions. It is a simple, non-risk-based ratio that has been introduced in the Basel III framework to constrain the build-up of excessive leverage.

This new regulatory and supervisory tool has been running from 1st January 2015.

Leverage ratio is defined as the capital measure (i.e. the institution's Tier 1 capital) divided by the exposure measure as this is defined in the European Commission's Regulation (EU) 2015/62 of 10 October 2014 amending Regulation (EU) No. 575/2013 of the European Parliament and of the Council with regards to the Leverage ratio. It is noted that the final calibration, and any further adjustments to the definition, will be completed by 2017, with a view to migrating to a Pillar 1 minimum capital requirement on 1 January 2018.

The Company's Leverage ratio as at the reference date was 95,77%, the minimum proposed allowable being 3%.

The table below provides a reconciliation of accounting assets and Leverage ratio exposures:

Summary reconciliation of accounting assets and leverage ratio exposures		**Applicable Amounts USD '000**
1	Total assets as per published financial statements	39.258
4	Adjustments for derivative financial instruments	-
7	Other adjustments	-1.945
8	**Total leverage ratio exposure**	37.313

The following table provides a breakdown of the Leverage ratio exposure measure by exposure type:

Leverage ratio common disclosure		CRR leverage ratio exposures USD '000
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	37.313
2	(Asset amounts deducted in determining Tier 1 capital)	-1.945
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	35.368
Derivative exposures		
4	Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin)	-
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	-
11	**Total derivative exposures (sum of lines 4 to 10)**	-
Securities financing transaction exposures		
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	-
Other off-balance sheet exposures		
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	-
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
Capital and total exposures		
20	**Tier 1 capital**	**35.733**
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**37.313**
Leverage ratio		
22	**Leverage ratio**	**95,77%**

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

Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)		CRR leverage ratio exposures USD '000
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**37.313**
EU-2	**Trading book exposures**	**6.812**
EU-3	**Banking book exposures, of which:**	**30.501**
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	0
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	113
EU-7	Institutions	27.323
EU-8	Secures by mortgages of immovable properties	0
EU-9	Retail exposures	0
EU-10	Corporate	2.850
EU-11	Exposures in default	0
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	215

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

In order to manage the risk of excessive leverage, the Company ensures that its Leverage ratio is always above the current 3% proposed regulatory limit.

The Company monitors its Leverage ratio on a quarterly basis.

Factors that had an impact on the Leverage ratio during the period

The Leverage ratio of the Company over the financial year 2015 ranged between 57,41% to 95,77% with an average rate of 77,87%. The reason for this fluctuation is mainly due to the significantly higher exposure to institutions that the Company had in March 2015 compared to the end of the year.

13 Remuneration Disclosures

The Company's Remuneration Policy and disclosure are subject to the principle of proportionality, which takes into account the scale, nature and complexity of the activities of the Company. The Remuneration Policy has been prepared by the General Manager, who is also responsible for Human Resources issues, and has been reviewed and approved by the Board of Directors. Updates to the Remuneration Policy are performed by the General Manager and are submitted to the Board for approval. One of the main duties and responsibilities of the Board is to adopt and periodically review the general principles of the Remuneration Policy.

The level of remuneration offered by the Company to management and staff is established based on skills, knowledge, individual performance and market rates. Staff performance is assessed on an annual basis through the Company's HR processes, which comprise of a self-assessment exercise performed by each employee against predefined performance criteria (both financial and non-financial), followed by a discussion between management and employee during which performance is evaluated against the targets set and new targets are determined for the new year.

The remuneration components are:

- *Fixed remuneration:* This is determined based on the role, responsibilities, job complexity and performance of the individual employee, while it also takes into account the local market conditions.
- *Performance-based remuneration:* This type of remuneration is intended to motivate and reward high performers who reinforce the work and results of their departments and add value to the Company as a whole. The General Manager may, if considered appropriate, propose to the Board that a percentage of performance-based remuneration is granted to certain employees, depending on their position and the value they add to the Company. Performance-based remuneration may be disbursed as cash bonus.
- *Other benefits:* These may be awarded on the basis of individual employment contracts and local market practice. The decision to award such benefits to the employees is taken on an annual basis by the Board of Directors.
- *Pension Policy and Severance payments:* The Company does not have a pension policy nor does it maintain a Severance Payments Policy. In the event of severance payments, these will be payable in accordance with applicable employment laws.

Employees in control functions, including Compliance and Risk Management are also eligible for performance – based pay. In essence, performance-based remuneration is based on the value added brought to the Company from the control and risk management procedures and improvements that are set in place and contribute to the Company's successes. As regards the amount of performance-based remuneration, the General Manager makes a recommendation to the Board of Directors, which the Board later considers and either approves or rejects.

In regards to the remuneration of the Board of Directors, the basic fee of a Board member is set at a level that is on par with the rest of the market and the qualifications and contribution required in view of the

Company's operational complexity, the extend of responsibilities and the number of Board meetings. Furthermore, given that the Executive Directors receive compensation (salary) as members of the Company's staff, no further remuneration is paid for their participation on the Board. On the other hand Non-Executive Directors receive an indicative fee for their participation, which is a reflection of their expertise. No pension contributions are payable on the Board member's fees.

During 2015, the remuneration structure offered by the Company to management and staff comprised of a fixed salary cash component and non-cash benefits in the form of medical insurance. The Company also paid bonus in the form of cash to reward outstanding employee performance during the year. Information on the aggregate remuneration to Senior Management and staff as at 31 December 2015 is provided in the following table:

	No. of people	Aggregate Remuneration	Cash - Fixed[1]	Cash - Variable[2]	Non – cash Variable
		USD '000	**USD'000**	**USD '000**	**USD'000**
Senior Management[3]	7	689	631	58	-

Furthermore, aggregate remuneration broken down by business area is presented below:

Business Area:	Aggregate Remuneration
	USD '000
Control Functions	157
Brokerage & Own Accout	256
Back office and Accounting	152
Total	**565**

During 2015, no sign-on or severance payments have been made and no deferred remuneration has been awarded. Moreover, all variable remuneration was paid in cash.

14 Board Risk Declaration

The Board of Directors' primary role is to formulate the Company's strategy and to ensure that the Company operates within that strategy whilst complying with its regulatory obligations and operating within an acceptable level of risk. Furthermore, the Board is responsible for evaluating the Company's risk

[1] This includes basic salary, employer's contribution and medical
[2] Variable remuneration includes bonuses provided to the Company's employees
[3] Senior Management includes Executive Directors as well as Heads / Directors of Departments.

appetite and risk bearing capacity, as well as, ensuring that the capital maintained is sufficient given the risks borne by the Company’s operations.

The Board considers that it has in place adequate systems and controls with regards to the Company’s profile and strategy and appropriate risk management tools, properly resourced and skilled, to avoid or minimise loss.

15 Board Approved Risk Statement

The Company’s strategic objective is the provision of international institutional investors with the access to the Russian capital markets and the introduction of Russian corporates to the international capital markets. The Company operates with a strong customer focus and provides simple, transparent products which aim to deliver value for customers. The Company’s strategy is pursued within efficient risk management practices that formulate the Risk Appetite of the Company.

The Board express the Risk Appetite through a number of key Risk Appetite measures which define the level of risk acceptable across three categories:
Financial: *Credit, Market, Liquidity risks*
Operational: *Operations, Human, IT risk*
Compliance: *Regulatory risk*

Risk appetite measures assist in managing profit volatility within assigned limits which are agreed with the parent Company on a frequent basis and when deemed necessary. The limits seek to ensure that the Company remains profitable under severe market or economic stress conditions.

The risk appetite measures are integrated into decision making, monitoring and reporting processes, with early warning trigger levels set to drive any required corrective action before overall tolerance levels are reached.

The following table sets out a number of the key measures used to monitor the Company's risk profile:

	Risk Area	Metric	Comment	Measure at 31/12/2015
Financial Risk	Capital	Capital Adequacy Ratio	The Company targets a CAD ratio above the regulatory guidance threshold of 8%. Our strategic capital plan show a continuation of above the regulatory guidance threshold	CAD 80%
	Credit Risk	a) Unsettle trades(over 5d)/Total Assets b) Value of unsettle trades term limit ≤5days	The Company has strong credit management controls and manages exposures to counterparties according to its risk appetite. Zero unsettle trades over 5days confirms the risk appetite towards counterparty exposures	UT≥5d /TA = 0%
	Market Risk	Stop loss limits: Unrealized loss per share max. 10% Total Realized Portfolio Profits minus Unrealized losses ≥ USD260K	The Company often enters into proprietary trading activity. The Company trades a range of Russian and European stocks in the form of ADRs. The maximum loss that is accepted is expressed through stop loss ratios with specified limits	At year end the company was within limits
Operational Risk	The Company manages operational risk through a control-based environment in which processes are documented and transactions are reconciled and monitored. There is a procedure for the identification and effective management of incidents and problems. The Company has in place a fully operational Disaster Recovery site supported with business continuity metrics. All measures are within appetite at year end.			
Compliance Risk	Staff receives regular training on compliance issues and policies and procedures are updated in line with new regulations. Objective is to fulfill all regulatory compliance requirements and ensure Company maintains its reputation amongst various stakeholders. All measures are within appetite at year end.			

Annex I

I. Balance sheet reconciliation

Balance Sheet Description, as per published financial statements	**Amounts USD '000**
Share Capital	5.301
Retained Earnings	32.363
Fair value reserves	14
Total Equity as per audited accounts	37.678
Regulatory adjustments	
(-) Intangible assets/Goodwill	(1.945)
Transitional adjustment for unrealised gains in AFS equities (0% de-recognition)	-
Total Common Equity Tier 1 capital	**35.733**
Total Additional Tier 1 capital	**-**
Transitional adjustment for unrealised gains in AFS equities (0% recognition)	-
Total Tier 2 capital	**-**
Total as per Regulatory Capital	**35.733**

II. Own funds disclosure template under the Transitional and fully phased in definition

Common Equity Tier 1 capital: instruments and reserves		Transitional Definition	Fully phased in definition
1	Capital instruments and the related share premium accounts	5.301	5.301
2	Retained earnings	29.986	29.986
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	14	14
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	2.377	2.377
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**37.678**	**37.678**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
8	Intangible assets (net of related tax liability) (negative amount)	(1.945)	(1.945)
25a	Losses for the current financial year (negative amount)	-	-
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-	-
	of which… filter for unrealised gain	-	-
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(1.945)**	**(1.945)**
29	**Common Equity Tier 1 (CET1) capital**	**35.733**	**35.733**
Additional Tier 1 (AT1) capital: instruments			
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**-**	**-**
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)**	**35.733**	**35.733**
Tier 2 (T2) capital: instruments and provisions			
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	-	-
	Of which: … possible filter for unrealised losses	-	-
	Of which: … possible filter for unrealised gains	-	-
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-**	**-**
58	**Tier 2 (T2) capital**	**-**	**-**
59	**Total capital (TC = T1 + T2)**	**35.733**	**35.733**
60	**Total risk weighted assets**	**44.628**	**44.628**
Capital ratios and buffers			
61	Common Equity Tier 1 (as a % of risk exposure amount)	80,07%	80,07%
62	Tier 1 (as a % of risk exposure amount)	80,07%	80,07%
63	**Total capital (as a % of risk exposure amount)**	**80,07%**	**80,07%**

Definitions:

- The Common Equity Tier 1 (CET1) ratio is the CET1 capital of the Company expressed as a percentage of the total risk weighted assets for covering Pillar 1 risks.
- The Tier 1 (T1) ratio is the T1 capital of the Company expressed as a percentage of the total risk weighted assets for covering Pillar 1 risks.
- The Total Capital ratio is the own funds of the Company expressed as a percentage of the total risk weighted assets for covering Pillar 1 risks.

Annex II

Information flow on risk to the management body

S/N	Report Name	Owner of Report/Preparer	Recipient (Competent Authority)	Frequency
1	Risk Management Report	Risk Manager	CySEC, BoD	Annual
2	Internal Capital Adequacy Assessment Process Report	Risk Manager	CySEC, BoD	Annual
3	Compliance Report	Compliance Officer	CySEC, BoD	Annual
4	Internal Audit Report	Internal Auditor	CySEC, BoD	Annual or more frequent upon management's request
5	Anti-Money Maundering Report	Anti-Money Laundering Compliance Officer	CySEC, BoD	Annual
6	Investment Committee decisions	Risk Manager	BoD	Upon request