GPB-Financial
Services Limited

GPB FINANCIAL SERVICES LTD

Disclosures in accordance with the CySEC Directive DI144-2007-05

5/4/2012

GPB-Financial Services Limited

APPENDIX A

Risk Management Disclosures in accordance with the

CySEC Directive DI144-2007-05

GPB-Financial Services Limited

Table of Contents

		Page
1	Introduction	2
2	Background	2
3	Method and Place of Disclosure of Information	3
4	GPB Financial Services Risk Management Framework and Structures	3
5	Structure and Organization of the Risk Management Framework	3
6	Disclosures in accordance with Annex XII, Part 2, in Part C of the Directive	5
7	Credit and Counterparty Risk	8
8	Nominated External Credit Assessment Institutions (ECAIs) for the application of the Standardised Approach	11
9	Market Risk	12
10	Operational Risk	13
11	Hedging Policies	14
12	Remuneration Disclosures	14

1. Introduction

According to the requirements stated in paragraphs 34 to 38 of Chapter 7 of Part C and Annex XII of the Cyprus Securities and Exchange Commission ("CySEC") directive DI144-2007-05 of 2011 ("the Directive"), 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. The information should be published on an annual basis and 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 2011.

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 related to one or more financial instruments
2. Order execution on behalf of clients
3. Dealing on own account
4. Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis
5. Placing of financial instruments on a non-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 when related to the provision of investment services
5. Investment research and financial analysis

6. Services related to underwriting

3. Method and Place of Disclosure of Information

The Company is making the disclosures on an individual (solo) basis. Throughout the year, the Company continuously maintained adequate level of capital in order to comply with the directive's requirements. The Company has included its risk management disclosures as required by the Directive on its website as it does not publish its financial statements. The Company has commissioned its independent auditors KPMG Ltd to verify its Disclosures. The Company is required according to the Directive to provide a copy of the auditor's verification report to CySEC.

4. GPB Financial Services Risk Management Framework and Structures

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 towards the Law and relevant regulation directives
- 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 Directive

6. Disclosures in accordance with Annex XII, Part 2, in Part C of the Directive

The adequacy of the Company's capital is monitored by reference to the rules established by the Basel Committee and adopted by CySEC. In December 2007, CySEC issued Directive 144-2007-05 for the calculation of the capital requirements of Investment Firms adopting the relevant European Union directive. Basel II consists of three pillars: a) minimum capital requirements, b) supervisory review process and c) market discipline.

(a) Pillar I – 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 classes 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 adds together the long and short positions of foreign exchange risk according to predefined models to determine the capital requirement. The main sources of foreign exchange risk for the Company are certain bank balances in non-reporting currencies and exposures in such currencies from fees receivable.

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 II – The Supervisory Review Process (SRP)

The Supervisory Review Process provides rules to ensure that adequate capital is in place to support any risk exposures of the Company in addition to requiring appropriate risk management, reporting and governance structures.

Pillar II covers any risk not fully addressed in Pillar I, such as concentration risk, reputation risk, business and strategic risk and any external factors affecting the Company.

Pillar II connects the regulatory capital requirements to the Company's internal capital adequacy assessment process (ICAAP) and to the reliability of its internal control structures. The function of Pillar II is to provide communication between supervisors and investment firms on a continuous basis and to evaluate how well the 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.

(c) Pillar III – 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 original own funds.

6.1 Capital Management and Preservation

The Company maintains only Tier 1 Capital as eligible own funds. Intangible assets (computer software) are deducted when deriving Tier 1 capital.

As at 31st of December 2011, the Company's eligible own funds consisted of the following:

	USD '000
	31 Dec 2011
Tier 1 Capital	
Share capital	5,301
Retained Earnings	(935)
Audited income for year ended 31/12/2011	2,169
Intangible Assets	(3,228)
Total Qualifying Tier 1 Capital	**3,307**
Total Regulatory Capital	**3,307**

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.

In cases where the own funds and/or capital adequacy ratio fall below the minimum required limit of section 67 of the Law and paragraph 11, Chapter 3, Section A of the Directive, this is immediately reported to the management in order to be aware and take necessary remedial actions. Also, the Company immediately notifies the decrease to CySEC and informs the Commission of the reasons which led to the decrease of its own funds and/or capital adequacy ratio, the actions to be taken in order to restore the ratio or own funds and the timeframe for implementing those actions. At no time has the Company failed to meet the required level of own funds and/or capital adequacy ratio.

The Company calculates the risk weighted exposure amounts in accordance with paragraphs 2 to 7 of Chapter 1 of Part C. The Company also maintains a minimum ratio of capital to risk weighted assets of 8%.

During 2011 the Company had fully complied with all externally imposed capital requirements. The Company's regulatory capital as per the year-end, audited results is analysed as follows:

	USD '000 31 Dec 2011
Total Regulatory Capital	**3,307**
Capital Requirements	
Credit, Counterparty Credit and Dilution Risks and Free Deliveries Capital Requirement	75
Position, Foreign Exchange and Commodities Capital Requirement	134
Operational Risk Capital Requirement	490
Total Capital Requirement	**699**
Surplus Capital Against Total Risks	**2,608**
Total Capital Adequacy Ratio	**37.82%**

7. Credit and Counterparty Risk

7.1 Definition

Is the risk of loss associated with the non-performance of a debtor or counterparty and, as a result, the failure of a promised payment. The Company monitors counterparty risk using tools that measure and manage this risk.

7.2 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.

7.3 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 every six months.

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.

The Company, in calculating "Credit, Counterparty Credit and Dilution Risks and Free Deliveries", adopts the Standardised approach for Credit Risk and takes into consideration the following applicable exposure classes:

	USD '000 31 Dec 2011	USD '000 31 Dec 2011	USD '000 31 Dec 2011
Credit, Counterparty Credit and Dilution Risks and Free Deliveries Capital Requirement – Standardized Method	Original Exposure/ Pre-conversion Factors	Risk Weighted Exposure Amount	8% Risk Weighted Exposure
Claims or contingent claims on institutions	3,201	640	52
Claims or contingent claims on corporates	125	125	10
Other items	166	166	13
Total	**3,492**	**931**	**75**

Geographical distribution of exposures by exposure classes:

	USD '000 31 Dec 2011	USD '000 31 Dec 2011	USD '000 31 Dec 2011	USD '000 31 Dec 2011	USD '000 31 Dec 2011
Exposure Class	Cyprus	Russia	United Kingdom	United States	Switzerland
Claims or contingent claims on institutions	1,064	585	1,179	372	1
Claims or contingent claims on corporates	103	-	22	-	-
Other items	166	-	-	-	-
Total	**1,333**	**585**	**1,201**	**372**	**1**

Distribution of exposures by industry sector:

	USD '000 31 Dec 2011	USD '000 31 Dec 2011	USD '000 31 Dec 2011
Exposure Class	Banking / Financial Services	IT / software	Other
Claims or contingent claims on institutions	3,201	-	-
Claims or contingent claims on corporates	102	22	1
Other items	-	-	166
Total	**3,303**	**22**	**167**

Trade receivables are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method, less provision for impairment. For those trade receivables that are 90 days or more past due, in non-accrual status, the Company classifies them as past due, thus an impairment test will emerge.

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments (90 days or more past due) are considered indicators of impairment. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the statement of comprehensive income.The credit quality of financial assets that are neither past due nor impaired can be assessed by historical information about counterparty default rate and whether those are collateralised or not.

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 2011:

	USD '000 31 Dec 2011	USD '000 31 Dec 2011	USD '000 31 Dec 2011
Exposure Class	Average Exposure for the period	Residual Maturity ≤ 3 months	Residual Maturity > 3 months
Claims or contingent claims on institutions	5,482	3,201	-
Claims or contingent claims on corporates	372	-	125
Other items	182	-	166
Regulatory High Risk Items	350	-	-
Total	**6,385**	**3,201**	**291**

8. 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 Directive, 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.

The Company has selected to use Fitch Ratings as the External Credit Assessment Institution ("ECAI") and as an alternative the Moody's Investor Services.

	USD '000 31 Dec 2011	USD '000 31 Dec 2011	USD '000 31 Dec 2011	USD '000 31 Dec 2011	USD '000 31 Dec 2011
Exposure Class	CQS 1	CQS 2	CQS 3	Unrated	N/A
Claims or contingent claims on institutions	1,552	-	1,649	-	-
Claims or contingent claims on corporates	-	-	-	125	-
Other items	-	-	-	-	166
Total	**1,552**	**-**	**1,649**	**125**	**166**

9. Market Risk

Market Risk is defined as the risk of financial loss as a result of changes in interest rates, exchange rates, stock prices and commodity prices.

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. Nevertheless, as at year end, the Company was not exposed to this type of risk.

9.2 Currency Risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is exposed to foreign exchange risk resulting primarily from its deposits and receivables in the Euro and the Ruble. Its 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. At the year end, the Company had the following balances denominated in foreign currencies:

	USD '000 31 Dec 2011		USD '000 31 Dec 2011		USD '000 31 Dec 2011
Position, Foreign Exchange and Commodities Capital Requirement – Standardized Method	Net Positions		Net Positions subject to Capital Charge		Capital Requirement
	Long	Short	Long	Short	
Traded Debt Instruments in Trading Book	-	-	-	-	-
Equities in Trading Book	-	-	-	-	-
Position Risks in Commodities	-	-	-	-	-
Total Positions in Non-reporting Currencies for FX	1,684	-	1,684	-	134
Excess of Large Exposures in Trading Book	-		-		-
Total	**1,684**	**-**	**1,684**	**-**	**134**

	USD '000 31 Dec 2011	USD '000 31 Dec 2011	USD '000 31 Dec 2011
	Net Positions subject to Capital Charge		Capital Requirement
Currency	Long	Short	
EUR	1,112	-	89
RUB	572	-	45
Total	**1,684**	**-**	**134**

9.3 Interest Rate Risk

The Company's management does not monitor the interest rate fluctuations and does not manage this risk, 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-bearing assets, which mainly comprise of overnight cash deposits.

9.4 Liquidity Risk

Liquidity risk is the risk of potential loss due to the inability to sell a financial instrument in a determined price and trading size. Also, funding risk is a type of liquidity risk where the assets do not match with the liabilities or liabilities funding long asset positions cannot be rolled over at reasonable cost.

As at 31 December 2011 the management of the Company does not believe that it is exposed to any material liquidity or funding risk, taking into consideration the level of cash at year end, as well as the absence of a trading portfolio.

10. Operational Risk

The Basel Committee for Banking Supervision defines operational risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events"[1]. Operational risk can be described as the potential for loss as a consequence of human

[1] "International Convergence of Capital Measurements and Capital Standards", Basel Committee for Banking Supervision, June 2004, par644, page 137.

failure or the breakdown of 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 commission receivable and payable, dividend income, fees received, gains or losses from the sale of financial assets and other revenues. The capital requirement for operational risk is equal to 15% of the relevant indicator defined in points 2 to 9 of Annex X, Part C of the Directive.

The Company manages operational risk through a control-based environment in which processes are documented and transactions are reconciled and monitored. This is supported by continuous operational risk monitoring.

In the following Table, there is an analysis of the Capital Requirements for Operational Risk under the Basic Indicator Approach. The amounts used for 2012 reflect projections of net income.

Operational Risk Capital Requirements	USD '000 31 Dec 2010	USD '000 31 Dec 2011	USD '000 31 Dec 2012	USD '000 Average	USD '000 Capital Requirement (15%)
Basic Indicator approach for operational risk calculation	579	4,750	4,475	**3,268**	**490**

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. 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 Company's remuneration policy is set by the Board of Directors and the General Manager. 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, based on a range of performance criteria (financial and non-financial).

The remuneration structure offered by the Company to management and staff comprises of a fixed salary cash component and non-cash benefits in the form of medical insurance. The Company's remuneration policy does not include any variable pay component (cash or non-cash).

The Company's aggregate remuneration to Directors and staff as at 31 December 2011 was as follows:

Business Area: Investment Management	No. of people as at 31 Dec 2011	Aggregate Remuneration	Cash - Fixed	Cash -Variable	Non cash
		USD '000	**USD '000**	**USD '000**	**USD '000**
Directors	4	210	197	-	13
Staff	7	468	440	-	28
Total	**11**	**678**	**637**	**-**	**41**