

RESERVE INVEST (CYPRUS) LIMITED

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

As at 31 December 2008

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1. Executive Summary

Capital Requirements Directive (CRD) have three pillars. Pillar I deals with a Company's minimum capital requirements; Pillar II deals with a Company's internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process through which the firm and regulator satisfy themselves on the adequacy of capital held by the firm in relation to the risks it faces and; Pillar III which deals with the Company's public disclosure of its risk management policies, capital resources and capital requirements. The regulatory aim of the disclosure is to improve market discipline.

ICAAP is a procedure ensuring that the Company:

- appropriately identify, measure, aggregate and monitor the risks incurred by the company,
- possess the capital coverage determined by internal regulations that is sufficient for the fundamental risks the company is exposed to,
- have an adequate risk management system in place, which the Company continuously develop in accordance with the risk factors identified.

The Company uses the following approaches for the calculation of capital requirements under Pillar I:

- Credit risk – Standardised approach
- Market risk – Standardised approach
- Operational risk – Basic Indicator approach

The Company does not quantify and allocate any additional capital against the Pillar 2 risks, but the Company has internal risk management procedures and methodologies to manage these risks. For estimating of internal capital adequacy Company don't uses economic capital models. Company's uses stress scenarios for risk assessment and testing of capital adequacy.

2. Background

The Company is regulated by the Cyprus Securities and Exchange Commission – (CySEC) under authorisation number CIF028/04 issued on 4 May 2004 by which it is licensed to operate as a Cypriot Investment Firm and to provide the investment and non-core services in relation to the transferable securities and shares in collective investments undertakings. Also the Company is trading in money market instruments, futures, forward rate agreements, interest rate, currency and equity swaps and options and provides the investment service of underwriting in respect of issues for transferable securities and shares in collective investment undertakings.

Income statement for year ended 31 December 2008

	2008 USD	2007 USD
Income		
Net(losses)/gains on financial assets and financial liabilities at fair value through profit and loss	(420 964 017)	29 094 069
(Loss)/profit on disposal of available for sale financial assets	(713 638)	2 563 388
Interest income	31 413 360	44 325 203
Fees and commission income	649 775	2 577 123
Dividend income	32 521 836	32 419 913
Net foreign exchange (losses)/gains	(6 893 569)	7 781 961
Total (losses)/income	(363 986 253)	118 761 657
Expenses		
Interest expenses	(42 575 825)	(61 010 734)
Fees and commission expense	(2 692 681)	(2 990 520)
Staff costs	(2 670 007)	(1 867 822)
Directors' fees	(27 500)	(65 589)
Auditors' remuneration	(82 544)	(83 695)
Legal, professional and consultancy fees	(459 005)	(482 070)
Other expenses	(1 158 544)	(781 547)
Provision for impairment of financial assets	(7 874 740)	-
Total expenses	(57 540 846)	(67 281 977)
(Loss)/profit before tax	(421 527 099)	51 479 680
Tax	(5 689 227)	(8 390 087)
(Loss)/profit for the year	(427 216 326)	43 089 593

Balance sheet at 31 December 2008

	2008 USD	2007 USD
Assets		
Non-current assets		
Property, Plant and equipment	390 032	417 739
Available-for-sale financial assets	7 491 219	11 353 271
Loans and receivables	185 083 633	190 309 851
	192 964 884	202 085 861
Current assets		
Financial assets at fair value through profit or loss	188 348 248	533 095 588
Pledged assets	592 345 149	1 289 191 906
Loans and receivables	128 393 898	426 914 170
Corporation tax receivable	815 475	113 762
Cash and cash equivalents	119 161 103	32 941 168
	1 029 063 873	2 302 256 594
Total assets	1 222 028 757	2 504 342 455
Equity and liabilities		
Capital and reserves		
Share capital	1 832 753	1 722 222
Share premium	737 322 972	412 066 959

Fail value reserve	846 578	3 747 450
Retained earnings	169 400 544	954 284 639
Total equity	909 402 847	1 371 821 270
Current liabilities		
Trade and other payables	10 767 740	14 129 756
Bank overdraft	4 654	-
Financial liabilities at fair value through profit or loss	7 886 798	5 373 438
Repurchase agreements	262 143 668	1 112 627 721
Current tax liabilities	656 820	390 270
Borrowings	31 166 230	-
Total liabilities	312 625 910	1 132 521 185
Total Equity and liabilities	1 222 028 757	2 504 342 455

Review of developments, position and performance of the Company's business

The year 2008 was a challenging year for RIC. The net loss for the year was \$427.216.326 versus a profit in 2007 of \$43.089.593. The majority of this loss stems from lower market to market values for holdings in Russian securities. The total assets of the Company fell from \$2.504.342.455 at the end of 2007 to \$1.222.028.757 as of December 2008.

RIC revaluation losses were caused largely by a 75-percent decline in Russian stock market in second half of 2008 as the global credit crunch and financial crisis caught-up to emerging markets and investors dumped assets perceived as risky. Energy and commodity related stocks were particularly hit hard as the global economic slowdown eroded demand in these sectors. Political uncertainty and freezing credit markets exacerbated this risk aversion, and a flight to the perceived safety of the US-treasures, that exposed Russian companies with liabilities in US-dollars, and less liquid assets denominated in rubles, to a deteriorating currency mismatch as the value of the ruble sank.

During the credit crisis, and steep drop in equity prices, Reserve Invest (Cyprus) Limited have demonstrated solid performance and meet all margin call in cash and collateral in-full and on-time, satisfying all of its repurchase agreement obligations to its external bank and non-bank financial institution counterparts. Taking into consideration the market situation, including increased volatility, the Company's substantially reduced in 2008 its repurchase agreement obligations from \$1.112.627.721 to \$262.143.668, which is considered by management as efficient for the Company's operations.

Despite the financial crisis RIC was able to partially profit from a drop in Russian equity prices through the use of equity options. The Company will continue its hedging strategies with regards to foreign exchange, interest rate and liquidity risks as well as its internal controls over credit risks.

Future developments

Reserve Invest (Cyprus) Limited will continue its principal activities, while expanding its product range and strength the internal controls. The Company will continue to focus on asset management as well as own trading and sales to for both external clients and related Group

companies. The Company's business mix has positioned the firm well for many long-term trends affecting emerging markets such as growing demand for energy and a revitalization of the power sector in Russia. The company expects a recovery in these markets based on continued global growth and demand that it will create for energy and commodities, but recognizes that this recovery may take time. A reduction in global financial imbalances should help support this long-term growth through better macroeconomic fundamentals, a more managed approach towards risk, less leverage and an improvement in the investment climate/ Just as Reserve Invest (Cyprus) Limited was hurt by a temporary reversal in these broad macro-trends in 2008, so will the Company be strongly positioned to benefit once markets begin to recover.

Capital Base

The composition of the capital of RIC as at 31 December 2008 is presented below.

Table (Regulatory own funds)

			000 USD
		Total own funds	759 162
		Tier 1	
1.1.1		Eligible capital	739 154
	1.1.1.1	Paid up capital	1 831
	1.1.1.3	Share premium	737 323
1.1.2		Eligible reserves	169 541
	1.1.2.1	Reserves	596 618
	1.1.2.3	Interim audited profits	271 241
	1.1.2.4a.01	Income from current year when it is unaudited	(698 318)
		Tier 2	
1.2.1		Core additional own funds	847
	1.2.1.3	Revaluation reserves	847
		Deductions from original and additional own funds	(150 380)
1.3.2		Subordinated claims and other items in other investments firms and financial institutions in which holdings exceed 10% of their capital	(150 380)

3. Summary of Current and Projected Financial and Capital Positions

Company's business profile is financial investments/trading (mainly in equity, fixed income, derivatives etc.), brokerage, investment management and investment advisory services. Company doesn't plan to change her business profile. Company has strong own capital position and can be supported by her shareholder Reserve Invest Holding (Cyprus) Ltd.

4. Capital Adequacy

Pillar I

The Company uses the following approaches for the calculation of capital requirements under Pillar I:

- Credit risk – Standardised approach
- Market risk – Standardised approach
- Operational risk – Basic Indicator approach

As at 31 December 2008 Company's capital requirements is shown in the table below:

Table 2 (Capital Requirements- Pillar I)

2	Capital requirements/Risk weighted assets		
	Minimum capital adequacy ratio	8%	000 USD
2.1	Credit, counterparty credit and dilution risks and free deliveries capital requirements		22 738
2.2	Settlement/delivery risk		-
2.3	Position, foreign exchange and commodities capital requirements		99 052
2.4	Operational risk capital requirements		53 960
2.5	Other and transitional capital requirements		50 205
2.6	Total capital requirements		225 955
3	Capital adequacy ratio	26.88%	

When managing capital, the Company's objectives are to safeguard the Company's ability to continue as a going concern in order to provide terms for shareholders and for other stakeholders.

The Company carries out regular risk reviews and based on the identified level of risks ensures the adequate relation of the risk profile of the Company to its Capital. Table below presents Capital adequacy ratio monthly analysis through 2008.

Table 3 (Capital adequacy ratio – monthly analysis)

Month	Capital adequacy ratio – Basel I	Capital adequacy ratio – Basel II
January	19.32%	
February	20.06%	
March	21.24%	
April	22.40%	
May	25.24%	
June	23.32%	
July	21.19%	
August	18.57%	
September		13.33%
October		23.77%
November		25.92%
December		26.88%

The capital risk management is currently considered by the Management as one of the priority directions of the development or risk management function and it is evolving together with the increasing business environment.

The Company is currently in the process of implementing a special software package designed as a calculation engine of the capital adequacy ratio in accordance with the requirement of the Directive DI144-2007-05. While the project is still in progress the Company has already benefited from the completed part of the work in the form of stock-taking and evaluation of quality of its data sources and information systems and their improvement. The life daily runs are expected to start by the 2nd quarter of 2010.

As at 31 December 2008 the Management believes that the Company's activities are strongly supported by shareholder's funds.

Pillar II

At the moment, the Company does not quantify and allocate any additional capital against the Pillar 2 risks, but the Company has internal risk management procedures and methodologies to manage these risks. Each risk the Company's activities expose to is described in detail below (including Pillar I risks). The Company is currently in the process of preparing new Internal Capital Adequacy Assessment Process document and afterward it will add extra capital for those risks that are not covered by Pillar I.

(a) credit risk;

Credit risk is the risk of financial loss from borrower or counterparty default or changes in credit spread of tradable securities.

Credit Risk management process

For the calculation of the capital resource requirement for the counterparty credit risk the Company uses Mark-to Market approach.

The Company currently employs such principal tools for management of credit risk as:

- Limits approval;
- Insurance of risks and provisioning for expected losses;
- Hedging of risks;
- Transfer of risks.

Currently, the primary technique for controlling credit risk is setting the system of limits, including:

- Individual limits to control the size of exposure by types of counterparties and issuers;
- Tenor limits to control the maximum maturity of transactions with counterparties;
- Rating exposure limits to control the amount of exposure to debtors of certain credit ratings;
- Concentration limits to control concentrations by countries and industry sectors.

A credit risk management process comprises of such stages as:

- Identification of credit risks;
- Measurement of credit risks;

- Monitoring and control of credit exposures, limits and risks;
- Credit risk reporting.

In respect of repurchase transactions, securities borrowing or lending the Company employs the following main principles:

- All material repurchase transactions are carried out with counterparties on the basis of ISMA (International Securities Market Association) Agreements. Repo Master Agreements prepared by ISMA is the most widely used form of making repurchase agreements over-the-counter, which allow to effectively manage risks arising when executing repurchase transactions. The Company applies the Financial Collateral Simple method.
- The assets relied upon the deals as collateral should be liquid, have good creditworthiness (for bonds) and acceptable price volatility.

Credit Risk identification and management process

A credit risk identification and measurement approach represents a set of procedures aimed at identifying the ability of borrowers to repay interest and principal payments, establishing individual exposure limits for counterparties and obtaining an estimate of credit portfolio value-at-risk.

The main elements of this process are the following:

- Identification of risks of credit nature;
- Evaluation of a single counterparty credit risk;
- Portfolio-based modeling of credit risk;
- Approval of credit limits on issuers of debt securities and other borrowers and trade limits on counterparties.

In the process of risk assessment all counterparties/borrowers are assigned into 5 major categories:

- Municipal counterparties;
- Credit organizations and banks;
- Corporate borrowers;
- Financial companies;
- Sovereign governments.

Company also can invest to structured products and credit derivatives (CDO, CDS etc.), but these investments are rare and not material.

Given that a set of quantitative and qualitative criteria used in the analysis is unique for each of the above-mentioned categories of counterparties the Company has developed separate methodologies for the assessment of credit quality for each of them.

An evaluation of a single counterparty's default risk is based on the credit-scoring model that performs qualitative assessment of the counterparty's business and quantitative analysis of its financial position and performance. This procedure results in assignment of an individual credit rating according to the adapted internal ratings scale similar to that used by external rating agencies.

A credit limit magnitude depends on the internal rating of a borrower, maturity of an instrument subject to credit risk, and the borrower's equity capital.

The suggested credit limits are submitted for approval to the Risk Committee.

The limit approval process

- Any transactions subject to credit risk (issuer risk, debtor risk, non-settlement or non-delivery risk) must be authorized in advance and carried out within the established credit or trade limits.
- Credit and trade limits are set upon examination of materials submitted by the Risk Management Department.
- The Risk Committee regulations are stated in the internal document of the Company.

Table (Exposures to Credit and Counterparty credit risks and free deliveries by classes of exposure)

Exposure classes	Non-weighted amounts	Risk weighted amounts	Capital requirements
	000 USD	000 USD	000 USD
Claims or contingent claims on central governments and central banks	822	0	0
Claims or contingent claims on regional governments or local authorities	-	-	-
Claims or contingent claims on administrative bodies and non-commercial undertakings	-	-	-
Claims or contingent claims on multilateral development banks	-	-	-
Claims or contingent claims on international organisations	-	-	-
Claims or contingent claims on institutions	751 523	140 976	11 278
Claims or contingent claims on corporates	123 991	124 686	9 975
Retail claims or contingent retail claims	-	-	-
Claims or contingent claims secured on real estate property	-	-	-
Past due items	8 006	0	0
Items belonging to regulatory high-risk categories	-	-	-
Claims In the form of covered bonds	-	-	-
Securitisation positions	-	-	-
Short term claims on institutions and corporates	-	-	-
Claims in the form of collective investment undertakings (CIU)	28 836	18 164	1 453
Other items	397	395	22

(b) market risk;

Market price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices. The Company’s investments at fair value through profit or loss are susceptible to market price risk arising from uncertainties about future prices of the investments.

The Company's investment portfolio comprises mainly of shares and ADRs of entities listed in the Russian equity market, promissory notes, Eurobonds and other corporate shares.

Market Risk management process

The market risk management policy consists of establishing and monitoring a system of tiered limits designed to protect the capital of the shareholders of the Company, while at the same time ensuring that the Company can take on the market risk required to generate a reasonable return on equity on its investment and trading portfolios.

- the Company employs structural limits on the size of exposures by exposures, asset classes and stand-alone instruments that foster diversity in the portfolios of the Company.
- Maximum cumulative losses limits by asset classes and as whole on the Company level that it can tolerate without endangering its financial strength.

Risks are subject to regular review by the Risk Management. It undertakes daily a thorough risk evaluation of the Company's positions, monitors actual exposures and risk contributions against limits and prepares risk reports with analysis by instruments and portfolios/asset classes and types of risk.

Market Risk Identification

Positions that expose the Firm to market risk are classified into two categories: trading and non-trading risk.

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price or arbitrage strategies are classified as trading investments and are subject to **trading risk**. These investments are actively traded and quoted in organized stock exchanges or over-the-counter markets equities, bonds and derivatives. They are subsequently carried at fair value and can be easily disposed of in a timely manner without material losses. Unrealized gains and losses in these positions are generally reported in current trading revenue.

Non-trading risk includes assets acquired for longer term investment and business diversification purposes and normally held till maturity. The market for such investments is not active, and the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flows analysis, refined to reflect the issuer's specific circumstances. Fair values for unlisted equities are estimated using applicable price-to-earnings and price-to-cash flow ratios refined to reflect the specific circumstances of the issuer. Promissory notes, loans and other fixed-income investments are initially recorded at cost, which is the fair value of the consideration given, and subsequently are carried at amortized cost less provision for impairment.

The table below summarizes **exposures** of the Company in the trading book and foreign exchange risks as at 31 December 2008. The structure of exposures is representative for the entire year 2008.

Table 9 (Market risk exposures and respective capital charge)

	Exposure amount	Capital charge
	000 USD	000 USD
Position risk in traded debt instruments (net position subject to capital charge)	29 044	3 248
Position risk in equities (net position subject to capital charge)	1 517 878	91 065
Settlement/delivery risk in the trading book	-	-
Commodities risk	-	-
Foreign exchange risk (total net position in non-reporting currencies)	59 245	4 740
Excess on large exposures in the trading book (duration – over 10 days)	20 143	50 205

The Company's activities expose it to the following types of market risk:

• **Currency risk**

The Company's functional and reporting currency for both financial and regulatory reporting purposes is U.S. dollar. Currency risk is the risk that the value of financial instruments and recognized assets and liabilities will fluctuate due to changes in foreign exchange rates. The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Russian Ruble and Euro.

Table 10 (Foreign exchange risk)

	Long	Short	Net/ base for specific risk charge calculation
	000 USD	000 USD	000 USD
EUR	1 862	892	970
RUB	77 304	19 029	58 275
Total foreign currencies			59 245
Capital charge, 8%			4 740

• **Equity risk – trading book**

Equity risk relates to the risk that the value of equities will fluctuate as a result of changes in market prices.

Table 11 (Market risks – equities)

	Long	Short	Net/ base for specific risk charge calculation	Gross/ base for general risk charge calculation
	000 USD	000 USD	000 USD	000 USD
Equities in trading book	758 939	193	758 746	759 132
Capital requirement				
- Specific risk			8%	
			60 700	
- General risk				4%
				30 365
Total				91 065

The Company does not apply any particular approach allowing for lower capital requirements in respect of the equities in the trading portfolio.

This risk provides main economic exposure. Company has sufficient capital for hold these positions, large capital can adsorb potential losses.

• **Exposures in equities not included in the trading book**

The Company does not have any material exposures not included in the trading book.

• **Position risk in traded debt instruments**

Table 12 (Market risks – traded debt instruments in trading book – general risk. Maturity-based approach. Summary)

	Long	Short	Net positions subject to capital charge	Capital requirements
	000 USD	000 USD	000 USD	000 USD
1.1. Zone 1	30 255	9 582		
0<=1 month	1 237	1 400		
>1 month <= 3 months	4 137	5 000		
>3 months <=6 months	383	-		
>6 months <= 12 months	625	3 182		
1.2. Zone 2	3 862	-		
>1 <=2 years	1 111	-		
>2 <=3 years	1 503	-		
>3 <= 4years	1 248	-		
1.3. Zone 3	20 011	-		
>4 <=5 years	12 581	-		
>5 <=7 years	790	-		
>7 <=10years	6 640	-		
>10 <=15years	-	-		
>15 <=20years	-	-		
>20years	-	-		
Matched weighted position between Zone 1 and 2			32	13
Residual unmatched weighted positions			671	671
Capital requirement				684

Note: All of the traded debt instruments as at 31 December 2008 had coupons over 3%.

Table 13 (Market risks – traded debt instruments in trading book – specific risk)

	Long	Short	Capital requirements
	000 USD	000 USD	000 USD
Debt securities under the third category in Table 1, Part D, Annex I, point 14	20 920	-	1 674
Debt securities under the fourth category in Table 1, Part D, Annex I, point 14	4 239	3 182	891
Capital requirement			2 564

• **Interest rate risk**

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market risk rates.

Financial assets and financial liabilities issued at variable rates expose the Company to cash flow interest rate risk. Financial assets and financial liabilities issued at fixed rates expose the Company to fair value interest rate risk. The Company both lends and borrows at variable interest rates which are normally reviewed on a short-term basis. However, the Company is exposed to interest rate risk principally as a result of the structure of its assets and liabilities. The interest bearing liabilities normally exceed the total interest bearing assets which exposes the Company to the risk of an increase in interest rates. However as 31 December 2008 a considerable cash balances resulted in a positive interest sensitivity gap. The Company's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

The estimated impact on the profit of the Company of an increase in interest rates based on the structure of interest bearing assets and liabilities with all other variables remaining constant is as follows:

Table 14 (Sensitivity analysis – interest rate risk)

	Estimated increase in interest income 000 USD	Estimated increase in interest expense 000 USD	Net effect on profit 000 USD
Increase of interest rate by 0,5% (current rates +0,5)%	1.560	(1.120)	440
Increase of interest rate by 1% (current rates + 1)%	2.410	(2.241)	169
Decrease of interest rate by 0,5% (current rates - 0,5)%	(140)	1.120	980
Decrease of interest rate by 1% (current rates - 1)%	(990)	2.241	1.251

For assets that are susceptible to more than one type of risk a conservative summative estimate is utilized.

(c) operational risk;

Operational risk is the risk of direct or indirect damage resulting from incorrect building of business processes, internal control failure, shortcomings and errors in course of implementation of inner processes by the staff, functioning of information systems, technological breakdown, unauthorized activities of employees and external actions.

Operational Risk Identification

The following steps are followed in the process of identification of operational risks pertinent to current position of the Company and before starting any new business direction or implementing new information systems:

- Identification of Company's organization structure and reporting lines;
- Analysis of inter-relations of business-processes (including all information systems involved in the processes and their interrelation), accountability and effectiveness of controls;

- Breaking-down of processes and technologies involved in each operation into their elementary components with subsequent determination of degree of exposure or influence of different sources of risk on each of the identified components;
- Identification of risks (detecting operational risks for all business-processes of the Company), revealing concentration points of risks, drawing up a risk map, describing risks accurately and in detail;
- Analyzing interdependence of occurrence of any other risk upon occurrence of an operational risk.

Monitoring Operational Risks

Monitoring is performed separately for each business line and structural unit within the Company and the Risk Management Department registers all events of operational risk nature in its database with the complete analysis of causes and consequences.

The following significant factors are used in the description and analysis of risk event:

- Object or source of risk;
- Type of operational risk;
- Reason for occurrence;
- Examination of interdependency between operational and other risks and materiality of losses incurred in aggregate (qualitative and quantitative assessment);
- Consequences of risk event;
- Date of occurrence, measures taken to remove consequences;
- Possible measures to mitigate the risk and prevent its occurrence in the future.

The minimum capital requirements with respect to Operational risk is calculated using the Basic Indicator Approach (BIA).

Under the BIA capital requirements for operational risk is calculated by applying the factor of 15% to the three year average of the sum of Company's net income.

Table (Operational risk – calculation of capital requirements)

	2007	2006	2005
	000 USD	000 USD	000 USD
Income and commissions receivable for investment services and activities			
<i>Net gains on financial assets and financial liabilities at fair value through profit or loss</i>	29 094	468 424	567 258
<i>Interest income</i>			
Interest income on bonds	12 161	19 693	456
Interest income on reverse repurchase and securities lending agreements	9 310	6 471	2 515
Interest on collateral accounts and accounts with brokers	247	331	15
Interest on bank deposits	429	1 135	1 542
<i>Fees and commissions income</i>			
Asset management fees	1 577	1 342	961
Investment advisory fees	37	6	15
Brokerage fees	273	528	190
<i>Income from underwriting</i>	19	11	4

<i>Dividend income</i>	32 420	18 136	17 370
Expenses and commissions payable for investment services and activities			
Fees and commission expense	(2 991)	(2 318)	(1 677)
Interest expense	(61 011)	(32 143)	(13 725)
Income and commissions receivable for non-core services	-	-	-
Expenses and commissions payable for non-core services	-	-	-
Other income	670	394	33
Total	22 235	482 010	574 957
Average income for 3 years	359 734		
Capital requirement – 15%	53 960		

(d) 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 and by having available an adequate amount of committed credit facilities.

As at 31 December 2008 the management of the Company does not believe the current maturity profile of the Company exposes itself to any material liquidity risk, taking into account the level of cash at year ends as well as the nature of its trading securities portfolio which is realizable at short notice if required.

Table (Liquidity analysis – 31 December 2008 based on the financial reporting figures)

	Demand and less than 1 month	1 month to 1 year	1-5 years	Not stated maturity	Total
	OOOUSD	OOOUSD	OOOUSD	OOOUSD	OOOUSD
Assets					
Property, plant and equipment	-	-		390	390
Available for sale financial assets	-	-	7 491	-	7 491
Loans receivable	157	1 678	170 000	-	171 835
Financial assets at fair value through profit or loss	188 348	-	-	-	188 348
Pledged assets	291 154	301 191	-	-	592 345
Trade or other receivables	16 076	99 589	-	-	115 665
Corporation tax receivable	-	815	-	-	815
Promissory notes	-	6 290	15 084	-	21 374
Reverse repurchase agreements	4 605	-	-	-	4 605
Cash and cash equivalents	119 161	-	-	-	119 161
Total assets	619 501	409 563	192 575	390	1 222 029

Liabilities					
Financial liabilities at fair value through profit or loss	(3 344)	(4 542)	-	-	(7 886)
Bank overdraft	(5)	-	-	-	(5)
Repurchase agreements	(95 618)	(166 526)	-	-	(262 144)
Trade and other payables	(2 028)	(8 740)	-	-	(10 768)
Current tax liabilities	-	(657)	-	-	(657)
Borrowings	-	(31 166)	-	-	(31 166)
Total liabilities:	(100 995)	(211 631)	-	-	(312 626)
Net liquidity gap	518 506	197 932	192 575	390	909 403
<i>Cumulative liquidity at 31 December 2008</i>	<i>518 506</i>	<i>716 438</i>	<i>909 013</i>	<i>909 403</i>	

(e) concentration risk;

Defined as the concentration risk arising from exposures to counterparties, groups of connected counterparties, and counterparties in the same economic sector, geographic region, or from same activity or commodity, the application of credit risk mitigation techniques and including in particular risks associated with large indirect credit exposures.

The Company's market price risk is significantly concentrated. OAO Lukoil Company shares and ADRs represent around 90% of the total value of financial assets at fair value through profit or loss and pledged assets as at 31 December 2008. The exposure to market price risk of OAO Lukoil shares and ADRs is recognised by the management as one of the major market price risks of the Company.

Given the significant volume of financing obtained via repurchase transactions secured by OAO Lukoil ADRs the Company might also be exposed to additional liquidity risk from the requirements to post extra ADRs/Cash on margin calls in the condition of downturn market. The risk management monitors the market price risk of OAO Lukoil ADRs and prepares the forecast of margin claims on a daily basis to ensure the necessary number of ADRs or cash are accumulated within an appropriate time period.

As a result of this concentration risk in terms of the Pillar I requirements the Company has continuous excess on large exposures in the Trading book that create a significant capital charge of 000USD 50 205.

(f) business risk;

This includes the current or prospective risk to earnings and capital arising from changes in the business environment including the effects of deterioration in economic

conditions. Research on economic and market forecasts are conducted with a view to minimize the Company's exposure to business risk. These are analyzed and taken into consideration when implementing the Company's strategy.

(g) Legal and compliance risk;

This could arise as a result of breaches or non-compliance with legislation, regulations, agreements or ethical standards and have an effect on earnings and capital. The probability of such risks occurring is relatively low due to the detailed internal procedures and policies implemented by the Company and regular reviews by the Internal Auditors. The structure of the Company is such to promote clear coordination of duties and the management consists of individuals of suitable professional experience, ethos and integrity, who have accepted responsibility for setting and achieving the Company's strategic targets and goals.

(h) reputation risk;

Reputation risk is the potential that negative publicity regarding a Company's business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions. Reputation risk could be triggered by poor performance, the loss of one or more of the Company's key directors, the loss of large clients, poor customer service, fraud or theft, customer claims and legal action, regulatory fines.

The Company has policies and procedures in place when dealing with possible customer complaints in order to provide the best possible assistance and service under such circumstances. In addition, the Company's Directors are made up of high caliber professionals who are recognized in the industry for their integrity and ethos; this adds value to the Company.

(i) settlement risk;

Settlement risk is the risk of loss when Company in a transaction pays money or send assets to counterparty but does not receive the assets it bought or money. Settlement risk is a form of counterparty risk involving both credit risk and liquidity risk. Company manages settlement credit risks with same methodology as standard credit risk management.

For settlement liquidity risk management Company uses limit technique and stress testing.

(j) regulatory risk;

Regulatory risk is the risk the Company faces by not complying with relevant Laws and Directives issued by its supervisory body. If materialized, regulatory risk could trigger the effects of reputation and strategic risk. The Company has documented procedures and policies based on the requirements of relevant Laws and Directives issued by the Commission.

Compliance with these procedures and policies are further assessed and reviewed by the Company's Internal Auditors and suggestions for improvement are implemented by management. The Internal Auditors evaluate and test the effectiveness of the Company's control framework at least annually. Therefore the risk of non-compliance is very low.

(k) strategic risk;

Company's Board approves strategy of Company and business yearly. Also Company has strategies of investments on different markets for every year. These strategies can be modified if business environment will be changed.

5. Capital Planning

Process of planning of future activity (business planning, limitation of business/market activity etc.) includes test for possible capital changes if negative scenarios will be realized. Stop loss limits set on security level, liquidation of positions can't threat to capital adequacy.

Market crash of 2008 indicates that Company's position in respect of CRR is stable.

If Company's capital will down to critical level, main shareholder Reserve Invest Holding (Cyprus) Ltd can provide capital support. Critical level of Capital adequacy ratio set on level 12%.

If risks of positions will arise significantly or capital will decrease, management will reduce individual credit exposure limits and market activity will decrease.

(a) scenario analysis and stress testing

Stress test is a general term covering the techniques and methodologies to measure Company's exposure to unlikely but plausible events in abnormal markets. Stress testing enhances understanding of the Company's risk profile and loss potential.

The Company's stress-test methodology assumes that, during an actual stress event, no management action would be taken to change the risk profile of portfolios. This captures the decreased liquidity that often occurs with abnormal markets and results in a conservative stress-test result. The impact of portfolio diversification diminishes greatly since in crises assets become highly correlated and exhibit large, coherent moves across all markets.

Company periodically measure the sensitivity of the Company's portfolios to the set of stress scenarios such as:

- Depreciation and appreciation of main currencies by 15% and 30%;
- Parallel yield-to-maturity shifts of 2% and 5% up and down of bonds;
- Increase and decrease in values of equities and ADRs, GDRs by 25% and 50%;
- Parallel shifts of zero-coupon generic U.S. Treasury rates by 1% and 3% up and down;
- Liquidity risk stress test includes scenarios
 - Company doesn't receive money or assets from 1 or 2 largest counterparties/borrowers;
 - Company can't borrow money via repos;
 - Prices of available for repos equities/bonds fall 50%.
- Credit risk stress tests
 - Default 1 or 2 largest counterparties/borrowers (exclude OJCLukoil and Group's companies)
 - "Max historical default". For calculation of stress test results Company uses maximum statistical ratio of defaults in each credit rating category, time range – 20-25 years. Statistical ratios of defaults provided by S&P, Moody's and Fitch. If it isn't

Stress testing results are reported quarterly to senior management. Stress tests can be applied in stress market situation. Decision about applying stress tests in this case is responsibility of Risk management Committee.

(b) methodology and assumptions

Company doesn't use economic capital models. Capital requirements calculate with standard methods.

For risk management of derivatives positions Company also uses VaR methodology. Basic assumptions are:

- limitation for VaR with confidence level 0.99 and time horizon 1 day;
- GARCH-modeling of market prices,
- Monte-Carlo simulations (10 000-1 000 000) for VaR calculation.

There are sensitivity to stress market moves. Company uses scenario analysis for estimation of result of these moves.

For testing of model's adequacy Company uses standard Basel back-testing methodology and own internal tests.

(c) capital transferability

(d) management actions

6. Liquidity Planning

The Company's liquidity management system consists of the following two pillars:

- **Management of operational liquidity** involves a day-to-day monitoring of the Company's current payment position and the analysis of short-term net funding requirements (forecasting future cash flows based on assumptions of the future behavior of assets, liabilities and off-balance-sheet items, margin calls execution, cash flows in repurchase and reverse repurchase agreements).
- **Management of strategic liquidity** represents procedures with the object of securing a sufficient level of the Company's financial soundness and meeting its obligations when they come due. It involves construction of a maturity ladder to reveal potential asset-liability mismatches over a series of specified time periods. The Company's liquidity objective is to maximize liquidity access and to ensure that all debt obligations maturing within one year can be repaid from cost-effective sources of new funding and without requiring liquidation of business assets. The Company maintains a contingency funding plan that outlines actions that would be taken in the event of a funding disruption.

Company also uses stress testing for checking of stability of liquidity position (see p. Stress-testing)

7. Aggregation and Diversification

Company doesn't use any assumptions about correlation between stress scenarios. For example, management can evaluate all stress scenarios results with all combinations. These combinations include "all risks" scenario, when equity collapse combines credit and liquidity crunch and devaluation of currencies.

8. Challenge and Adoption of the ICAAP

Board of Directors approves yearly ICAAP with assumptions and stress scenario set.

Yearly Risk management Committee considers stress scenarios and compares these scenarios with real situation. If stress scenario realized on 3 year horizon, Company shall use this scenario for testing (.

If market situation changes extremely Risk management Committee shall report to Board of Directors about regulatory capital and prognosis of probable market moves and their impacts for capital.

9. Use of The ICAAP within the Firm

Company's business activity can't change without risk profile assessment. Capital adequacy is important part of limitation of risk appetite. Company's management prefers to have overcapitalized position. Limitations for operations are conservative. Large exposition on equity risk is approved by Board of Directors, this position is strategic.

Company's stress tests include scenarios with small probabilities and large losses for Company. Business activity in trading and brokerage operations is strictly limited. Usually stop losses and potential losses for these operations (overall) don't exceed 10% of capital.