

RESERVE INVEST (CYPRUS) LIMITED

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

As at 31 December 2009

GENERAL NOTES

Reserve Invest (Cyprus) Limited (herein referred to as “RIC” or “the Company”) has prepared the following disclosures based on the audited financial statements for the year ended 31 December 2009. However it is important to note that some of the figures presented in the document might not match the figures presented in the audited financial statement. This is due to the difference in the treatment that exists between the IFRS requirements and the requirements of the CySEC Directive DI144-2007-05.

While it is recommended to read this document in conjunction with the audited financial statements of the Company the Disclosures are prepared as a stand-alone document with the view to explain how the Company manages risks, under the requirements of the Cyprus Securities and Exchange Commission (hereafter referred to as “CySEC” or “the Regulator”) and how much capital is assigned to these risks for their management.

The Disclosures have been reviewed and approved by the Company’s Board of Directors and they have also been verified on a sample basis by the Company’s external auditors.

The Company does not have any subsidiaries. Its financial statements, capital adequacy reports and the Disclosures are prepared on standalone basis.

The Company does not use any securitisation.

TABLE OF CONTENTS

1. SCOPE OF THE APPLICATION.....	4
2. RISK GOVERNANCE.....	5
3. RISK MANAGEMENT PROCESS.....	6
4. CAPITAL BASE.....	8
5. CAPITAL REQUIREMENTS.....	9
6. CREDIT RISK.....	11
7. MARKET RISK.....	18
8. OPERATIONAL RISK.....	24
9. OTHER RISKS	27

1. SCOPE OF THE APPLICATION

GOVERNING LAW

According to the Cyprus Securities and Exchange Commission Directive DI144-2007-05 – Capital Requirements of Investment Firms, Reserve Invest (Cyprus) Limited has an obligation to disclose information relating to risks and risk management on an annual basis at a minimum as per chapter 7 Sub-Chapter A and Annex XII of the Directive.

POLICY STATEMENT

The Company's Board of Directors has decided that some or all of the Disclosures need not be published more frequently than annually. The Disclosures will be published only on the Company's website.

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.

2. RISK GOVERNANCE

The following bodies are responsible for risk management in the Company:

- Board of Directors
- Risk Committee
- Risk Management Department
- Heads of the key business segments

<p>Board of Directors Policy-setting Level</p>	<p>General oversight of risk management guidelines and policies, establishment of risk tolerance levels for the Group</p>
<p>Risk Committee Strategic Level</p>	<p>Review and revision of methodologies and models, approval of limits, responsibility for decisions relating to risk strategy and control</p>
<p>Risk Management Department Operational Level</p>	<p>On-going process of measurement, monitoring and control of risks, development and testing of models, risk reporting</p>

The Board of Directors authorizes the Company's risk management guidelines and policies, approves the annual investment strategy, establishes risk tolerance levels and oversees overall risk management performance.

The Risk Committee ensures that the risks assumed by the Company are managed within tolerance levels, verifies that the Risk Management Department has implemented appropriate policies for the effective management of risks, approves various types of limits and bears responsibility for decisions relating to risk strategy and control.

The Risk Management Department performs an independent day-to-day function of measurement of risks, control and supervision of business and investment activities, prepares and delivers risk reports to senior management, reviews the existing models and related assumptions and develops appropriate mitigation strategies for the identified risks.

3. RISK MANAGEMENT PROCESS

RIC's ability to properly identify, measure, monitor and report risk is a crucial factor of its financial soundness and profitability.

- **Risk Identification**

The Company identifies risk by dynamically assessing the potential adverse impact of internal and external factors on investment positions, transactions and profits. Business and risk professionals develop appropriate mitigation strategies for the identified risks.

- **Risk measurement**

The Company measures risk using a variety of unique and widespread methodologies, including calculating probable loss and value-at-risk, and by conducting stress tests and making comparisons to external benchmarks. Measurement models and related assumptions are routinely reviewed to ensure that the Company's risk estimates are reasonable and reflective of underlying positions, and risk reporting can be accomplished in a timely manner.

- **Risk monitoring and Control**

The Company establishes risk management policies and procedures. These policies contain a system of approved limits by counterparties and borrowers, products, financial instruments and asset classes, businesses and cumulative stop-loss and take-profit limits that are monitored on a daily, weekly and monthly basis as appropriate.

- **Risk reporting**

Risk reporting covers all lines of business and it ensures a regular link to the senior management.

The Company has established the risk management process, which includes the following stages:

- As a preparatory work at the beginning of a new financial year the Risk Management Department carries out a comprehensive modeling of risks of the Company's and portfolios comprised of instruments within established limits structure to ensure that the Company's risk-taking is consistent with the approved risk tolerance levels, business strategy, capital structure, and current and anticipated market conditions.
- On the regular basis the Risk Committee approves limits on the amount of exposures and acceptable risk in relation to borrowers, counterparties and financial investments.
- Before any new activity can be launched, the Risk Committee ensures that the infrastructure required for its proper management, pricing and reporting is in place and the risks generated are correctly analyzed, measured and controlled.

- Actual risks levels are subject to regular monitoring by the Risk Management Department. It undertakes a thorough daily short-term risk evaluation of the Company's portfolios and monitors actual exposures against limits. Financial risk professionals conduct monthly stress-testing of trading and investment positions according to given scenarios to obtain the understanding of the Company's risk profile and loss potential. Credit risk professionals perform a regular analysis of the ability of current and potential borrowers to meet interest and principal repayment obligations and subject the lending limits to change where appropriate. Breaches of limits and stress-testing results are reported immediately to senior management which decides on adjustments in the structure of portfolios or application of any hedging techniques.

4. CAPITAL BASE

The composition of the capital of RIC as at 31 December 2009 is presented below.

Table 1 (Regulatory own funds)

			000 USD
Total own funds			980 927
Tier 1			
1.1.1		Eligible capital	859 155
	1.1.1.1	Paid up capital	1 869
	1.1.1.3	Share premium	857 286
1.1.2		Eligible reserves	271 756
	1.1.2.1	Reserves	-
	1.1.2.3	Interim audited profits	271 756
Tier 2			
1.2.1		Core additional own funds	16
	1.2.1.3	Revaluation reserves	16
Deductions from original and additional own funds			(150 000)
1.3.2		Subordinated claims and other items in other investment firms and financial institutions in which holdings exceed 10% of their capital	(150 000)

Deductions from own funds represent the balance receivable of subordinated loan of USD 150m issued to a fellow subsidiary company OJSC Petrocommercebank . The loan is a US Dollar loan and it is repayable on 9 November 2016. It bears interest of 3 months LIBOR +4%. The interest is payable quarterly. There have been no late repayments during the year.

The borrower has the right for early repayment of the loan but not later than 5 years and 1 month from the date of advance. In case this right is not exercised the interest for the successive periods will increase by 150 basis points, i.e. will be fixed at LIBOR+5.5%.

5. CAPITAL REQUIREMENTS

5.1. Minimal capital requirements – 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 2009 the 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		15 749
2.2	Settlement/delivery risk		-
2.3	Position, foreign exchange and commodities capital requirements		168 138
2.4	Operational risk capital requirements		37 818
2.5	Other and transitional capital requirements		142 582
2.6	Total capital requirements		364 287
3	Capital adequacy ratio	21.54%	

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 and to maintain an optimal capital structure to reduce the cost of capital.

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. The table below presents the Capital adequacy ratio monthly analysis through 2009.

Table 3 (Capital adequacy ratio – monthly analysis)

Month	Capital adequacy ratio – Basel II
January	26.40%
February	28.07%
March	25.28%
April	18.55%
May	16.96%
June	19.27%
July	28.32%
August	28.25%
September	27.98%
October	28.01%
November	25.50%
December	21.54%

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

During 2009 the Company has substantially completed the implementation of 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.

As at 31 December 2009, Management believes that the Company's activities are strongly supported by shareholder's funds.

5.2. Internal Capital Adequacy Assessment Process (ICAAP) – Pillar II.

In addition to rules concerning the calculation of regulatory capital in relation to Credit, Market and Operational risks (Pillar I), in line with Pillar II the Company is required to demonstrate that it has internal risk assessment and management information systems in place to efficiently assess its capital requirement for the risks, that are not included in Pillar I, such as Concentration risk, Liquidity risk, Interest Rate Risk in the Non-trading Book and others (ICAAP - Internal Capital Adequacy Assessment Process).

ICAAP is a procedure ensuring that the Company:

- appropriately identifies, measures, aggregates and monitors the risks incurred by the Company,
- possesses the capital coverage determined by internal regulations that is sufficient for the fundamental risks the Company is exposed to,
- has an adequate risk management system in place, which the Company continuously develops in accordance with the risk factors identified.

The Company is currently in the process of preparing the Internal Capital Adequacy Assessment Process document and subsequently it will add extra capital for those risks that are not covered by Pillar I.

6. CREDIT RISK

6.1. Definition

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

There are 3 major types of credit risk:

- Credit default risk: All portfolios are exposed to credit default risk, as the default of a debtor or a debt issuer results in a loss.
- Credit spread risk: Credit spread risk is inherent in portfolios for which the credit spread is traded and marked-to-market. Changes in observed credit spreads impact the value of the portfolios.
- Counterparty default risk: Risk of loss due to counterparties and clients in brokerage and leveraged lending activity, clearing houses and stock exchanges failing to fulfill their contractual obligations and arrangements.

6.2. Credit Risk management process

For the calculation of the capital resource requirement for the counterparty credit risk the Company uses the 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.

6.3. 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 are assigned into 5 major categories:

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

Given that the 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.

6.4. 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.

6.5. Past due and Impaired exposures

Impairment losses are recognized in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- Any installment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- The borrower experiences a significant financial difficulty as evidenced by borrower’s financial information that the Company obtains;
- The borrower considers bankruptcy or a financial reorganisation;
- There are significant changes in the borrower’s management structure which can cause late payment
- Third party actions: legal and/or tax claims against borrower, arrest or seizure of the borrower’s property
- The value of collateral significantly decreases as a result of deteriorating market conditions;

As per IFRS7 Appendix A ‘Defined terms’: A financial asset is past due when a counterparty has failed to make a payment when contractually due. The Company did not have any past due items.

As at 31 December 2009 the Company had no past due items except the exposures under repurchase transactions and income on the respective pledged assets due to the Company in the total amount of \$ 2 052 199. The Company has provided in full for the probable impairment of the financial assets concerned.

6.6. Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

6.7. Impact of the amount of collateral the Company would have to provide given a downgrade in its credit rating.

The provision of collateral by the Company is in essence limited to repurchase agreements and OTC trades with derivatives. RIC is rated B3 by Moody’s rating agency and it is possible that the amount of collateral the Company would have to provide would be affected as a result of a downgrade in the RIC rating.

6.8. Monitoring of Credit Risks

Monitoring of Credit Risks focuses on daily evaluation of the credit portfolio value-at-risk and the identification of risky exposures and performs monitoring of limits by counterparty, rating classes and economy sectors..

6.9. Use of external credit assessment institutions (ECAIs) and expert credit agencies (ECAs)

The Company obtains information on credit ratings of counterparties/issuers from Bloomberg. The ratings from the following agencies are downloaded and stored in the internal databases if available:

- Fitch Ratings
- Moody's Investor Services
- Standard & Poor's Rating Services

If there are two ratings available the Company uses the lowest of the two, if there are all three ratings available the Company selects the highest of the two lowest ratings.

6.10. Credit Risk Reporting

The Risk Management Department prepares daily reports that include:

- **Report on credit exposures**
Based on this report the Department performs a daily portfolio level monitoring of credit exposures, risk contributions and adherence to diversification limits. Expected loss equals the value of credit exposure multiplied by the default probability.
- **Report on rating classes**
This report contains data on credit exposures by rating classes with set limits in proportion to the total portfolio value and risk contributions.
- **Report on economy sectors**
This report shows how well the Company's portfolio is diversified in terms of sectors.

Table 4 (Exposures to Credit and Counterparty credit risks and free deliveries by classes of exposure)

Exposure classes	Exposure value	Risk weighted amounts	Capital requirements
	000 USD	000 USD	000 USD
Claims or contingent claims on central governments and central banks	10 586	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	653 198	159 140	12 731
Claims or contingent claims on corporates	12 221	12 221	978
Retail claims or contingent retail claims	-	-	-
Claims or contingent claims secured on real estate property	-	-	-
Past due items	2 052	0	0
Items belonging to regulatory high-risk categories	115	173	14
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)	15 366	(7 683)	(615)
Other items	326 922	33 015	2 641

Table 5 (Geographical distribution of exposures by exposure classes)

Exposure classes	EU	Russian Federation	Other
	000 USD	000 USD	000 USD
Claims or contingent claims on central governments and central banks	10 586	-	-
Claims or contingent claims on institutions	450 743	36 408	166 047
Claims or contingent claims on corporates	22	11 871	328
Past due items	-	2 052	-
Items belonging to regulatory high-risk categories	-	115	-
Claims in the form of collective investment undertakings (CIU)	-	-	15 366
Other items	324 340	2 582	-

Table 6 (Geographic distribution of exposures)

	EU	Russian Federation	Other	Total
	000 USD	000 USD	000 USD	000 USD
Cash and cash equivalents	15 095	1 459	166 047	182 601
Loans receivable and promissory notes	-	181 959	-	181 959
Trading book investments	3 547	1 338 466	19 640	1 361 653
Available for sale investments	-	115	-	115
Repos and reverse repos	385 567	784	-	386 351
Trade receivables	625	-	-	625
Other assets	51 255	4 157	328	55 740
Warranties under asset management agreements (off-balance sheet)	-	-	15 366	15 366
Total	456 089	1 526 940	201 381	2 184 410

Table 7 (Distribution of exposures by residual maturity)

	On demand or less than 1 month	From 1 month to 1 year	From 1 to 5 years	Over 5 years
	000 USD	000 USD	000 USD	000 USD
Cash and cash equivalents	182 601	-	-	-
Loans receivable and promissory notes	88	10 241	21 630	150 000
Repos and reverse repos	140 927	245 424	-	-
Trade receivables	625	-	-	-
Other assets (that have maturities)	53 582	1 837	-	-

Table 8 (Distribution of exposures by industry)

	Exposure types/Industry	Total per industry per exposure type	Total per exposure type
		000 USD	000 USD
	Loans receivable and promissory notes		181 959
	Banks	170 088	
	General Trading	11 871	
	Fixed income instruments – trading book		16 928
	Auto-Cars/Light Trucks	341	
	Banks	545	
	Industrial	1 537	
	Special Purpose Entities	3 547	
	Oil	1 313	
	US Government	9 645	
	Equities – trading book		1 344 710
	Agricultural chemicals	1 676	
	Auto-Cars/Light Trucks	151	
	Banks and Diversified Banking Institutions	5 756	
	Buildings and Construction	223	
	Chemicals manufacturing	283	
	Coal	839	
	Diversified manufacturing	345	
	Electric generation, distribution and transmission	10 316	
	Food	957	
	Gas distribution	247	
	Gold mining	275	
	Medical instruments and drugs	361	
	Metal	9 990	
	Oil	1 311 169	
	Telecom	2 114	
	Other	8	

7. MARKET RISK

7.1. Definition

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.

7.2. 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.

As **the first tier** 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.

As **the second tier** flexible risk limits are utilized that limit the market risk component of economic capital based on short- and medium-term estimates.

The third tier limits restrain maximum cumulative losses 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 Department. 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. Short- and medium-term estimates for the period from one day to one month are used to obtain an understanding of the Company's risk profile and identification of risky positions. Monthly risk values are compared against risk limits.

A comprehensive modeling of the long-run risk along with stress testing and sensitivity analysis conducted on a monthly basis are used to ensure that the Company's risk-taking is consistent with risk tolerance levels, business strategy, capital structure, and current and anticipated market conditions. Long-run risk estimates and stress-testing results are reported immediately to senior management which decides on adjustments in the structure of portfolios or resorts to hedging instruments.

7.3. 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 summarises **exposures** of the Company in the trading book and foreign exchange risks as at 31 December 2009. The structure of exposures is representative for the entire year 2009.

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)	17 425	2 006
Position risk in equities (net position subject to capital charge)	2 708 698	162 522
Settlement/delivery risk in the trading book	-	-
Commodities risk	-	-
Foreign exchange risk (total net position in non-reporting currencies)	45 120	3 610
Excess on large exposures in the trading book (duration – over 10 days)	42 074	142 582

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 the 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 the Euro.

Table 10 (Foreign exchange risk)

	Long	Short	Net/ base for specific risk charge calculation
	000 USD	000 USD	000 USD
EUR	1 836	120	1 716
RUB	46 073	2 669	43 404
Total foreign currencies			45 120
Capital charge, 8%			3 610

- **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	1 354 349	-	1 354 349	1 354 349
Capital requirement				
- Specific risk			8%	
			108 348	
- General risk				4%
				54 174
Total				162 522

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

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

The Company has no material exposures which are 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	17 430	343 229		
0<=1 month	9 922	191 337		
>1 month <= 3 months	7 508	122 543		
>3 months <=6 months	-	29 349		
>6 months <= 12 months	-	-		
1.2. Zone 2	5 970	-		
>1 <=2 years	5 397	-		
>2 <=3 years	573	-		
>3 <= 4years	-	-		
1.3. Zone 3	10 958	-		
>4 <=5 years	-	-		
>5 <=7 years	1 313	-		
>7 <=10years	9 645	-		
>10	-	-		
Matched weighted position between Zone 1 and 2			44	18
Matched weighted position between Zone 1 and 3			318	477
Residual unmatched weighted positions			134	134
Capital requirement				629

Note: All of the traded debt instruments as at 31 December 2009 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	16 355	-	1 308
Debt securities under the fourth category in Table 1, Part D, Annex I, point 14	573	-	69
Capital requirement			1 377

- **Interest rate risk**

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in interest 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 2009 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)%	900	(1.664)	(764)
Increase of interest rate by 1% (current rates + 1)%	1.799	(3.329)	(1.530)
Decrease of interest rate by 0,5% (current rates - 0,5)%	(900)	1.664	764
Decrease of interest rate by 1% (current rates - 1)%	(1.799)	3.329	1.530

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

- **Concentration risk**

The Company's market price risk is significantly concentrated. OAO Lukoil Company shares and ADRs represent around 95% of the total value of financial assets at fair value through profit or loss and pledged assets as at 31 December 2009. 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.

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 USD 142 582 000.

7.4. Market Risk Measurement

7.4.1. Short- And Medium – Term Estimation

Short- and medium-term risk estimation focuses on holding periods from one day to one month and is performed daily.

For internal purposes as a statistical benchmark for estimating financial risk for a holding period T we use a **95% Value-at-Risk** (alternatively Expected Shortfall), which measures the average value of maximum financial losses whose probability of occurrence does not exceed 1% worst cases, and, as we believe, can capture the "fat-tails" phenomenon frequently attributed to financial data.

Risk measurement is performed by two different approaches from which the most conservative estimate is used:

Weighted historical simulation method relies on the empirical distribution of the observations in the past. This approach assumes that historical changes in market values are representative of future changes and involves fewer assumptions about the distribution of portfolio losses than parameter-based methodologies.

Monte Carlo full valuation method is a powerful flexible method that generates a set of artificial random numbers from the desired distribution of returns and simulates future prices of the underlying instruments in the portfolio. This method is expected to provide the most accurate risk estimates for instruments with non-linear payoff.

7.4.2. Long-Term Estimation

Long-term risk estimation focuses on holding periods from three months to one year and is performed monthly.

- **Weighted historical simulation method**

Historical simulation method relies on the square root rule to extrapolate a longer-horizon risk estimate for assets with linear payoff such as equities, commodities, futures and currencies.

- **Monte Carlo full valuation method**

This method implies a multi-step simulation of prices of a security on intermediate dates over a holding horizon. On each of such intermediate dates a new random number is applied which is different from the one used on any of the dates before.

Correlations between assets used in the calculation of a portfolio risk are based on 20-day returns and may not respect true interdependencies observed over longer horizons. In all other aspects the procedure replicates the algorithm described above.

For fixed-income securities the Company employs different methodologies for in long-run risk evaluation. In particular, the risk of bonds is estimated by four methods, each having its own merits that help overcome the shortcomings of the others:

- Weighted historical simulation method via yield-to-maturity;
- Weighted historical simulation method via benchmark rates;
- The ten-year note yield forecast method;
- The Brownian Bridge method.

7.5. Policies with respect to wrong-way risk exposures

Wrong-way risk occurs when an exposure to a counterparty is adversely correlated with the credit quality of that counterparty.

The Company's policy for managing such risks focuses on prevention. The Company does have some exposure, but their impact is insignificant, and it is controlled through the system of limits.

7.6. Market Risk reporting

Daily risk reporting includes a set of reports that list the Company's trading positions and their risk characteristics. For long positions bid quotes and for short positions ask quotes are used for establishing the fair value of instruments.

- Report by asset classes;
- Report by types of risk;
- Report by instruments.

8. OPERATIONAL RISK

8.1. Definition

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 object is any financial instrument, process and type of activity, performing or managing which can cause deterioration in financial results (financial losses), in cash flow controls and quality of management technologies.

Source of risk is an agent of impact, everything that could serve a reason of an unfavorable event associated with various objects of risk and resulting in financial damage and decrease in quality of processes.

8.2. Capital requirements – Operational risk Pillar I

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

Under the BIA capital requirements, operational risk is calculated by applying a factor of 15% to the three year average of the sum of the Company's net income. In the year 2008 the Company had losses – therefore it is excluded for the purposes of the calculation of capital requirement for operational risk.

Table 15 (Operational risk – calculation of capital requirements)

	2008	2007	2006
	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
<i>Interest income</i>			
Interest income on bonds		12 161	19 693
Interest income on reverse repurchase and securities lending agreements		9 310	6 471
Interest on collateral accounts and accounts with brokers		247	331
Interest on bank deposits		429	1 135
<i>Fees and commissions income</i>			
Asset management fees		1 577	1 342
Investment advisory fees		37	6
Brokerage fees		273	528
<i>Income from underwriting</i>		19	11
<i>Dividend income</i>		32 420	18 136
Expenses and commissions payable for investment services and activities			
Fees and commission expense		(2 991)	(2 318)
Interest expense		(61 011)	(32 143)
Income and commissions receivable for non-core services		-	-
Expenses and commissions payable for non-core services		-	-

Other income		670	394
Total	0	22 235	482 010
Average income for 3 years	252 123		
Capital requirement – 15%	37 818		

8.3. Classification of Operational Risks

By the source of risk operational risks can be divided into:

- **Technology risk:**
 - equipment breakdown risk;
 - software and information technologies breakdown risk;
 - loss or drain of information through information systems;
 - risk of incorrect methodology;
 - risk of operational breakdown and errors due to informational interrelations, such as data input error, incorrect requisites, improper execution of instruction, etc.
- **Personnel risk:**
 - risk of failure of the system of controls or in case of the introduction of new products – risk of error in the design of the system of controls in respect of the new activities;
 - risk of professional overload, when employees perform volume of operations bigger than it is acceptable pursuant to physical and psychological norms;
 - risk of deficiency of key and/or qualified employees at allotted work;
 - risk of accidental, one-time mistakes;
 - risk of limited segregation of duties and risk of fraud.
- **Risk of external effect on internal objects, processes and technologies:**
 - risk of unauthorized access to operational processes (electronic databases, archives, premises, etc.);
 - risk of asset theft with further identification of asset types/ objects of risk (cash, electronic payments, securities, property);
 - risk of natural disasters and/or unfavorable conditions (natural, man-caused, social, political, etc.);
 - risk of loss from the actions of clients or counterparties;
 - other external effects.

8.4. Operational Risk Identification

The following steps are followed in the process of identification of operational risks pertinent to the 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.

8.5. 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.

8.6. Reporting

One of the main components of the risk management system is regular reporting on operational risks, which enables to reveal and assess various types of risks and evaluate them by means of unified criteria with the purpose to identify the most significant sources and objects of risk.

Reporting includes:

- operational risk analysis with regards to business processes in different structural units with specification of the following details:
 - Unit structure and team-work within it;
 - Description of general functions;
 - Operational risks inherent to the unit and their expert assessment;
 - Map of unit operational risks;
 - Conclusions and recommendations based on the analysis of general functions.
- monitoring report showing occurred risks and their consequences for a certain period of time.

9. OTHER RISKS

9.1. 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 2009 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 end as well as the nature of its trading securities portfolio which is realizable at short notice if required.

The table below shows the assets and liabilities at 31 December 2009 by their remaining contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows.

Table 16 (Liquidity analysis – 31 December 2009 based on the financial reporting figures)

<i>In US Dollars</i>	Demand and less than 1 month	1 month to 6 months	6 month to 12 months	1-5 years	Over 5 years	Not stated maturity	Total
Assets							
Cash and cash equivalents	182.600.303	-	-	-	-	-	182.600.303
Financial assets at fair value through profit or loss	640.793.685	-	-	-	-	-	640.793.685
Pledged assets	420.337.819	300.521.135	-	-	-	-	720.858.954
Trade receivables	625.000	-	-	-	-	-	625.000
Loans receivable	91.052	2.107.642	3.921.593	49.720.745	164.260.215	-	220.101.247
Promissory notes	-	10.479.656	-	-	-	-	10.479.656
Available-for-sale financial assets	-	-	-	114.988	-	-	114.988
Current income tax asset	-	1.403.770	-	-	-	-	1.403.770
Property, plant and equipment	-	-	-	-	-	321.682	321.682
Other assets	63.522.208	386.859	46.259	-	-	-	63.955.326
	1.307.970.067	314.899.062	3.967.852	49.835.733	164.260.215	321.682	1.841.254.611
Liabilities							
Financial liabilities at fair value through profit or loss	(427.054)	-	-	-	-	-	(427.054)
Trade and other payables	(1.036.000)	(118.411)	-	-	-	-	(1.154.411)
Repurchase agreements	(103.803.414)	(233.401.389)	-	-	-	-	(337.204.803)
	(105.266.468)	(233.519.800)	-	-	-	-	(338.786.268)
Liquidity gap	1.202.703.599	81.379.262	3.967.852	49.835.733	164.260.215	321.682	1.502.468.343
Cumulative liquidity gap	1.202.703.599	1.284.082.861	1.288.050.713	1.337.886.446	1.502.146.661	1.502.468.343	

9.2. Legal risk.

Legal risk arises from the potential that unenforceable contracts, lawsuits, or adverse judgments can disrupt or otherwise negatively affect the Company's operations or condition.

9.3. 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.