GPB FINANCIAL SERVICES LIMITED

Disclosures in accordance with Part Six of Regulation (EU) No 2019/2033 of the European Parlpiament and of the Council of 27 November 2019 on prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014

YEAR ENDED 31 DECEMBER 2021

July 2022

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1 Introduction

1.1 Company's Information

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

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

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

The Company also provides the following ancillary services:

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

Disclosure Policy

The following sets out the Company's Pillar 3 Disclosure Policy with regards to the information to be disclosed, as well as its frequency, location and verification:

Frequency of Publication

The Disclosures are reviewed on an annual basis at a minimum and, if appropriate, more frequently. They are published in conjunction with the date of publication of the financial statements (or where no publication of financial statements is required, the Disclosures are published in conjunction with the date of submission of the audited financial statements to the CySEC).

Location of Publication

The Disclosures Report is published and made available on the Company's website at www.gpbfs.com.cy.

Verification

The Company has commissioned Mr. Panico Panayi, Certified accountant and licensed auditor to verify its Disclosures.

Scope of Disclosure

GPB Financial Services Limited prepares its disclosures on a solo basis in accordance with the disclosure requirements of part six of IFR.

1.2 Prudential Framework

The capital adequacy and overall risk management requirements that applied until recently to the Company under the Capital Requirements Regulation & Directive ("CRR & CRDIV") prudential framework, have been replaced by amended prudential rules established by the EU Regulation 2019/2033 ("Investment Firm Regulation" or "IFR") and the EU Directive 2019/2034 ("Investment Firm Directive" or "IFD"), which became applicable on the 26th of June 2021. The new rules introduce changes in the methodologies that specific categories of EU investment firms are required to apply for calculating their exposures to risk and their Capital Adequacy ratio.

IFR divides the investment firms into three different classes. The three classes of investment firm are as follows:

- Class 1 firms: Large investment firms. There are two types of investment firm in this class. First, investment firms meeting the conditions of systemically important firms will be reclassified as a credit institution under the CRD IV and CRR. Second, large investment firms that are not of systemic importance but whose size and activities present some risks to financial stability. These will remain subject to the CRR and CRD IV but will not be required to be reauthorised as a credit institution.
- Class 2 firms: Other investment firms exceeding the categorisation thresholds for small and non-interconnected investment firms. Class 2 investment firms will be subject to the full prudential IFR/IFD regime.
- Class 3 firms: Small and non-interconnected investment firms. These firms will also be subject to the new IFR regime but can benefit from various exemptions and modifications given that the risks incurred by them are limited for the most part.

The Company is categorized as a Class 2 Investment Firm and as such it should maintain own funds of at least the higher between:

- **The fixed overheads requirement**
  As per Article 13 of the IFR, Fixed Overhead Requirements (FOR) is the amount equal to at least one quarter of the investment firm's fixed overheads for the preceding year

- **The permanent minimum requirement**
  The initial capital requirement is set out in Article 9 of the IFD and is based on the MiFID II services that an investment firm is authorised or plans to offer. The permanent minimum capital requirement of the Company is €750k based on its activities

- **The K-factor requirement**

K-factors are divided in the IFR into three groups and they aim to capture the risk the investment firm can pose to customers, to market access or liquidity or the investment firm itself. The overall K-factor position is a sum of the K-factors in respect of the three heads of risk (Risk-to-Client (RtC), Risk-to-Market (RtM) and Risk-to-Firm (RtF))

The IFR/IFD framework consists of three Pillars that are used to regulate, supervise and improve the risk management of firms in the financial services industry. The three Pillars and their applicability to the Company, are summarised below:

- Pillar I - Minimum Capital Requirements - ensures that the Company maintains at all times a sufficient amount of capital above the minimum requirement in relation to certain key risks, as calculated using prescribed methods.
- Pillar II - ICARA and Supervisory Review and Evaluation Process (“SREP”) - ensures that the Company and its supervisor, CySEC, actively assess, control and mitigate the various risks that the Company faces.

  Following the implementation of the new prudential regulatory framework, the Company is in process implementing the new ICARA by establishing new assessments with respect to the liquidity adequacy of the Company, designing new financial projections and stress tests to reflect the new K-Factors requirement and drafting a new report which reflects all provisions under the new regulation.
- Pillar III - Market Discipline - ensures the promotion of market discipline through the disclosure of the Company's regulatory requirements, risk management and risk governance policies and procedures, allowing market participants to view and compare meaningful information relating to the Company and its peers.

1.3 Coronavirus Outbreak

Management has considered the unique circumstances and the risk exposures of the Company and has concluded that there is no significant impact in the Company’s business operations. The event did not have an immediate material impact on the business operations.

The Company’s management believes that it is taking all the necessary measures to maintain the viability of the Company and the development of its business in the current business and economic environment. Management will continue to monitor the situation closely and will assess the need for additional financing in case the period of disruption becomes prolonged.

1.4 Conflict between Russia and Ukraine

In February 2022, following the recognition of self-proclaimed republics of Donetsk and Lugansk by the Russian Federation, additional sanctions were introduced by the United States of America, the European Union and some other countries.
In recent days and weeks, following the commencement of military operations in Ukraine by the Russian Federation, additional severe sanctions were imposed by the United States of America, the European Union and some other countries on the Russian government, as well as major financial institutions and certain other entities and individuals in Russia. In addition, restrictions were introduced on supply of various goods and services to Russian entities. In response to the sanctions described above, the Russian government introduced certain currency control measures while the Russian Central Bank increased the key interest rate to 20%.
This may have significant adverse impact on Russia's economy. These events have increased volatility of financial markets and significantly increased the level of economic uncertainty in the Russian business environment.
On 24th of February 2022, the Department of the Treasury's Office of Foreign Assets Control ("OFAC"), US< issued Russia-related Directive 2 and Directive 3 under Exectutive Order 14024. As per those Directives the Company's Parent Company, Gazprombank JSC, is prohibited to issue New Debt and Equity under certain conditions. The Company is included in the UK sanctions list since the Company is a whole owned subsidiary of Gazprombank JSC which is also included in the UK sanction list in accordance with the UK sanctions General Licence, "General Licence - Wind Down of Positions involving various Designated Banks NT/2022/1424276".

2 Risk Management Objectives and Policies

Risk Management Framework and Structure

Risk management is regarded as an integral part of sound management practices, thus it is fully integrated into the Company's policies and procedures. A continuous risk management approach is applied to effectively anticipate and mitigate the risks that may pose certain dangers or have critical impact on the Company's operations. Effective risk management includes early risk identification through the collaboration and involvement of the Department of Risk Management in concert with directors, management, heads of departments and personnel. Strong leadership across all relevant stakeholders is needed to establish an environment for the free and open disclosure and discussion of risk within the Company.

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 which 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.

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, Risk Management is applied at the distinct functions of Internal Audit, Risk Management, Compliance and AML process, the Accounting Department and all other operations departments.

Risk Management function

The Department of Risk Management has developed and implemented a framework to systematically identify, measure, and manage risk in accordance with the standards set by the Board of Directors of the Company. The main objectives of the Department of Risk Management are to:

- Formalize and enhance risk management practices

- Demonstrate compliance with relevant legislation and regulatory requirements
- Integrate the supervision and management of risk across key Company processes and departments
- Raise the profile of risk management within all corporate levels
- Reduce any costs arising from internal or external exposures
- Develop and retain a Risk Register in order to facilitate all risks associated with Company operations
- Achieve a proactive approach to Risk Management.

Compliance Department

The Company has established a Compliance Function which is an independent unit within the organization. The main duties/responsibilities of the Compliance function are the following:

- Monitor on a permanent basis and assess on a regular basis, the adequacy and effectiveness of the measures, policies and procedures put in place, and the actions taken to address any deficiencies in the Company's compliance with its obligations
- Advise and assist the relevant persons responsible for carrying out investment services and activities to comply with the Company's obligations under the relevant laws
- Report to the Board of Directors, on at least an annual basis, on the implementation and effectiveness of the overall control environment for investment services and activities, on the risks that have been identified and on the Complaints-handling reporting, as well as the remedies undertaken or to be undertaken
- Monitor the operations of the Complaints-handling process and consider Complaints as a source of relevant information in the context of its general monitoring responsibilities.

Internal Audit

The Company's internal audit function is outsourced to PricewaterhouseCoopers. The main duties and responsibilities of the internal audit are the following:

- Establish, implement and maintain an audit plan to examine and evaluate the adequacy and effectiveness of the Company's systems, internal control mechanisms and arrangements

- Issue recommendations based on the result of the audit
- Verify compliance with the recommendations
- Report in relation to internal audit matters to the management of the Company, the Board of Directors and to the regulators.

3 Governance arrangements

3.1 Board of Directors

For the year ended 31 December 2021, the Board consisted of three Executive Directors and two Non-Executive Directors.

The main duties of the Board of Directors ("BoD") include:

- Defining and overseeing the implementation of the governance arrangements that ensure effective and prudent management of the Company, including the segregation of duties and the prevention of conflicts of interest, in a manner that promotes the integrity of the market and the interest of the Company's clients
- Formulating the Company's strategy in terms of the development of existing and new services
- Governing the organization by broad policies and objectives
- Ensuring that the Company maintains and implements an adequate internal control mechanism
- Ensuring that the Company complies with its legal obligations to CySEC
- Assessing on a regular basis that the Company's policies and procedures follow the relevant Law and Directives / Guidelines issued by CySEC from time to time
- Defining, overseeing and approving a policy as to services, activities, products and operations offered or provided, in accordance with the risk tolerance of the Company as well as the characteristics and needs of the clients of the Company to whom they will be offered or provided
- Defining, overseeing and approving a remuneration policy
- Determining and recording the general policy principles of the Company in relation to the prevention of money laundering and terrorist financing and informing the Compliance/AML Officer accordingly

- Monitoring the internal control mechanisms of the Company and periodically assessing the adequacy and implementation of the Company's strategic objectives in the provision of investment services and activities
- Reviewing and approving the Client Acceptance Policy
- Ensuring that sufficient and experienced resources are available to the Company to carry out its operations
- Ensuring that it receives on an annual basis written reports from the Compliance Officer, Risk Management Officer and Internal Audit function, following up on any issues raised, as well as ensuring that remedial measures have been taken.

3.2 Board Recruitment

One of the BoD's main responsibilities is to identify, evaluate and select Board candidates and ensure appropriate succession planning. The assessment of the suitability of members of the Management Body is performed on the basis of the following criteria:

- Substantive knowledge and skills
- Management competencies
- Professional experience
- Individual suitability (adequacy of the candidate for the position, business situation and current strategy of the Company)
- Collective suitability
- Reputation and good repute, the ability to act with ethics and integrity
- Investing sufficient time and holding an adequate number of management functions
- Independence of judgment.

When assessing the knowledge, skills and experience of a member, consideration should be given to theoretical and practical experience relating to:

a. Banking and financial markets
b. Legal requirements and regulatory framework
c. Strategic planning, the understanding of a company's business strategy or business plan and accomplishment thereof
d. Risk management (identifying, assessing, monitoring, controlling and mitigating the main types of risk of a company)
e. Accounting and auditing, financial reporting

f. The assessment of the effectiveness of a company's arrangements, ensuring effective governance, oversight and controls.

The assessment of professional experience takes into account previously held positions and time in employment. The assessment of individual suitability takes into account the person's competencies, theoretical knowledge and skills, management competencies and professional experience. The BoD as a body should have the knowledge, skills and experience necessary to perform its functions.

3.3 Diversity Policy

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service.

The members of the Board of Directors shall at all times be of sufficiently good repute and possess sufficient knowledge, skills and experience to perform their duties.

The ultimate objective is to have a Board that offers a broad range of perspectives that are directly relevant to the business and organizational needs. The Company ensures that a broad set of qualities and competences exists when recruiting members to its Board.

The overall composition of the Company's Board shall reflect an adequately broad range of experiences and knowledge in domain areas of the Company's business such as investment banking and finance, human resources, legal, risk management, etc.

3.4 Committees

The Board establishes sub-committees to focus on specific areas and make informed decisions within the authority delegated to each of the Committees. Board committees represent an essential part of the corporate governance process and should have clear reporting procedures and scope.

Based on the criteria set in CySec's circular C081 as updated by CySEC's Circular C487 the Company is Significant CIF and therefore the Company should establish:

- A nomination Committee
- A Risk Committee
- A Remuneration Committee

As at 31 December 2021 the Company had only established an Investment Committee comprised of four members, two of which were executive directors. The Committee is responsible for establishing investment guidelines and formulating the overall investment policy of the Company, which is subject to approval by the Board of Directors.

The Investment Committee's main responsibilities with regards to the Company's investment policy can be summarized as follows:

- Provide a general framework for the Company's investment decisions
- Deal with any other matter relating to the Company's investment policy
- Define the markets and financial instruments in which the Company shall operate in
- Provide a list of investment choices which should be avoided or preferred over others
- Approve new products.

The Company, following it's "significant CIF" assessment, proceeded with the establishment of nomination and remuneration Committee and the re-establishment of the risk committee, in full compliance with the requirements of the regulation.

3.5 Number of directorships held by members of the Board

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

Name of Director	Position within the Company	Directorships – Executive	Directorships – Non-Executive
Evanthia Kania	Executive	1	-
Irina Chuprynenko	Executive	1	-
Adamos Kitros	Executive	1	-
Andreas Aloneftis	Non-Executive	-	5
Anastasios Televantides	Non-Executive	-	8

[1] *Note: The information in this table is based only on representations made by the directors of the Company.*

The Company's directors should not hold more than one of the following combinations of directorships at the same time:

- One executive directorship with 2 non-executive directorships;
- Four non-executive directorships

The Company is aware of excessive directorships of it's non-executive directors and initiated the process to rectify the situation. As at the date of this report, Mr.Anastasios Televantides reduced his directorships to 5.

3.6 Information flow on risk to the management body

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

4 Board Risk Declaration

The Board of Directors' primary role is to formulate the Company's strategy and to ensure that the Company operates within that strategy, whilst complying with its regulatory obligations and operating within an acceptable level of risk. Furthermore, the Board is responsible for evaluating the Company's risk appetite and risk bearing capacity, as well as ensuring that the capital maintained is sufficient given the risks borne by the Company's operations.

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

5 Board Approved Risk Statement

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

The Board expresses the Company's Risk Appetite through a number of key Risk Appetite measures which define the level of risk acceptable across three categories:

Financial: *Credit, Market, Liquidity risks*
Operational: *Operations, Human, IT risk*
Compliance: *Regulatory risk*

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

The risk appetite measures are integrated into decision making, monitoring and reporting processes, with early warning trigger levels set to drive any required corrective action before overall tolerance levels are reached. The following table sets out a number of the key measures used to monitor the Company's risk profile:

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Risk Area		Metric	Comment	Measure at 31/12/2021
Financial Risk	Capital	Capital Adequacy Ratio	The Company targets a Core Tier 1 ratio above the regulatory guidance threshold of 56% and not below 100% as per new IFR framework. The strategic capital plan ensures above regulatory guidance threshold.	CAR ratio is at 4464,8%
	Credit and concentration Risk	a) Unsettled trades(over 5d)/Total Assets b) Value of unsettled trades term limit ≤ 5 days	The Company has strong credit management controls and manages exposures to counterparties according to its risk appetite. Zero unsettled trades over 5 days confirms the risk appetite towards counterparty exposures.	UT ≥ 5d /TA = 0%
	Market Risk	Stop loss limits: a) Daily Stop loss limits: Max limit €100 thousand b) Weekly stop loss limits (5 days) Max Limit €150 thousand	The Company often holds securities for inventory purposes and arbitrage. The Company trades a range of Russian and European stocks in the form of ADRs. Control is achieved with stop loss limits within specified limits.	No positions held during the reviewed period
	Liquidity Risk	1/3 of Fixed Overheads Requirement	According to new IFR framework investment firms under class 2 shall hold an amount of liquid assets equivalent to at least 1/3 or 33% of the Fixed Overhead Expenses	Fixed overhead exp / Liguid assets =2%
Operational Risk	• The Company manages Operational risk through a control-based environment in which processes are documented and transactions are reconciled and monitored. There is a procedure for the identification and effective management of incidents and problems. • For remote access, Windows Virtual Desktops are created that duplicate office PC workstation functions and setup office tools, trading terminals, back office, etc. Virtual Desktop is accessible as a remote screen from any web browser, PC and mobile application. On-premise infrastructure databases and documents are accessible from virtual desktops. All workstation telephone lines of the office are forwarded to the mobile phones of the respective employee. • An electricity generator is available in order to ensure business continuity. • Company will continue to be fully compliant with labor laws and health and safety regulations, as well as update its operations manual with new procedures when deemed necessary. • In addition, the Company intends to retain its four eyes principal in settling transactions and enhance its monitoring on employees through such actions as maintenance of an insider trading policy and regular updates of restricted equities list, in order to prevent any legal risks. • Moreover, the Company will continue holding its client assets with reputable institutions and perform regular reconciliations with custodians. • System security risk will continue to be mitigated by a set of controls which consist of regular change of system passwords, immediate support agreement with a third-party provider, antivirus, penetration tests and regular back- ups in disaster recovery site. • All measures are within appetite at year-end.			

Compliance Risk	• The Company is dedicated to continuously enhancing and implementing policies and procedures based on the latest regulatory requirements issued by CySEC. To this respect, the Company has a strong Compliance Function that implements a number of controls in relation to compliance with the relevant laws and regulations and monitors employees on a regular basis. • Staff receives regular training on compliance issues and policies and procedures are updated in line with new regulations. • Objective is to fulfill all regulatory compliance requirements and ensure that the Company maintains its reputation amongst various stakeholders. • All measures are within appetite as at the reference date.

6 Own Funds

The new prudential framework for investment firms set out in the IFR and the IFD is designed to reflect better the nature, size, and complexity of investment firms' activities compared to the CRR/CRD framework. One key aspect of the new framework is that it provides for simpler and more bespoke capital requirements for investment firms.
As per the new rules set by the IFR, investment firms are required to maintain Own Funds consisting of the sum of their Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital, and shall at all times meet all of the following conditions:

a) Common Equity Tier 1 Capital of at least 56% of Own Funds Requirements.
b) Common Equity Tier 1 Capital and Additional Tier 1 Capital of at least 75% of Own Funds Requirements.
c) Common Equity Tier 1 Capital, Additional Tier 1 Capital and Tier 2 Capital of at least 100% of Own Funds Requirements.

First table below present the composition of the Company's Own Funds as at 31 December 2021, while second table indicates how these Own Funds reconcile with the Company's audited Balance Sheet as of this date, and they have been prepared using the format set out in the Final Report on the Draft Implementing Standards issued by the EBA on reporting and disclosure requirements of investment firms under the IFR (EBA/ITS/2021/02).

As at 31 of December 2021, the Company's Own Funds comprised of Common Equity Tier 1 capital. As shown below, the Company's Own Funds as at 31 December 2021 amounted to $37.926K.

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Template EU IF CC1.01 - Composition of regulatory own funds (Investment firms other than small and non-interconnected)

	Common Equity Tier 1 (CET1) capital: instruments and reserves		
Ref.		**31 Dec 2021 ($000)**	**Source based on reference numbers/letters of the Balance Sheet in the audited Financial Statements**
1	**OWN FUNDS**	37.926	
2	**TIER 1 CAPITAL**	37.926	
3	**COMMON EQUITY TIER 1 CAPITAL**	37.926	
4	Fully paid up capital instruments	5.301	Ref. 1 (Shareholders' Equity)
5	Share premium	-	
6	Retained earnings	32.855	Ref. 2 (Shareholders' Equity)
8	Other reserves	-	
10	Adjustments to CET1 due to prudential filters	(3)	
19	(-) Other intangible assets	(97)	Ref. 2 (Assets)
23	(-) CET1 instruments of financial sector entites where the institution does not have a significant investment	(3)	Ref. 6 (Assets)
27	CET1: Other capital elements, deductions and adjustments	(127)	Ref. 3 & 8 (Assets)
28	**ADDITIONAL TIER 1 CAPITAL**	-	
40	**TIER 2 CAPITAL**	-	

Template EU IFCC2: Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements

		Balance Sheet as in audited Financial Statements	**Cross reference to EU IF CC1**
		31 December 2021 ($000)	
Ref.	**Assets -** *Breakdown by asset classes according to the balance sheet in the published/audited financial statements*		
1	Trade and other receivables (Investors Compensation Fund Contribution)	121	Ref. 27
2	Intangible assets	97	Ref. 19
3	Other non-current assets	128	
4	Trade and other receivables (other)	409	

5	Cash and cash receivables (Additional Cash Buffer)	6	Ref. 27
6	Cash and cash receivables (Other)	37.856	
7	Financial assets at fair value through profit or loss	3	Ref. 23
8	Refundable tax	9	
	Total Assets	**38.629**	
Ref.	**Liabilities - Breakdown by liability classes according to the balance sheet in the published/auditied financial statements**		
1	Non- current liabilities	63	
2	Current Liabilities	410	
	Total Liabilities	**473**	
Ref.	**Shareholders' Equity**		
1	Share capital	5.301	Ref. 4
2	Retained earnings	32.855	Ref. 6
	Total Shareholders' equity	**38.156**	

7 Principal Risks

This section sets out the Company's objectives and policies to manage each key risk that arises from its activities and operations, as well as the strategies and processes it has put in place in order to manage and mitigate each such risk.

7.1 Risk to Client

Risk to Client ("RtC") is the risk that an investment firm poses to its clients in the event where it fails to properly carry out the services being offered to them. It reflects the risk covering the business areas of an investment firm from which harm to clients can conceivably be generated in case of problems.

There are four K-factors through which some of the core aspects of RtC are being captured and measured, and which act as proxies that cove the specific of business areas that are referred to above. These K-factors consist of the of the following:

- **K-AUM (Assets Under Management)**

K-AUM captures the risk of harm to clients from an incorrect discretionary management of client portfolios or poor execution and provides reassurance and client benefits in terms of the continuity of service of ongoing portfolio management and investment advice. Based on the reference year, the Company was not subject to the risk relating to this K-factor since the Company did not offer the investment services of “Portfolio management” and “Investment Advice” during the year ending 31 December 2021.

- **K-CMH (Client Money Held)**

K-CMH captures the risk of potential for harm where an investment firm holds the money of its clients, taking into account whether they are on its own balance sheet or in third-party accounts and arrangements under applicable national law provide that client money is safeguarded in the event of bankruptcy, insolvency, or entry into resolution or administration of the investment firm. K-CMH excludes client money that is deposited on a (custodian) bank account in the name of the client itself, where the investment firm has access to the client money via a third-party mandate. Based on the reference year, as part of its business, the Company receives from its customers, cash deposits to enable them to perform transactions in financial instruments and to this end, it is subject to the risk captured by this K-factor.

- **K-ASA (Assets Safeguarded and Administered)**

K-ASA captures the risk of safeguarding and administering client assets and ensures that investment firms hold capital in proportion to such balances, regardless of whether they are on its own balance sheet or in third-party accounts. During the year under review, the Company offered safeguarding services and was therefore subject to the risk relating to K-ASA for these client trades.

- **K-COH (Client Orders Handled)**

K-COH captures the potential risk to clients of an investment firm which executes orders (in the name of the client, and not in the name of the investment firm itself), for example as part of execution-only services to clients or when an investment firm is part of a chain for client orders.

7.1.1 K-CMH

The Company holds money on behalf of clients in accordance with the client money rules set out in the CySEC’s Directive DI87-01 for the Safeguarding of Client Assets, Product Governance Obligations and Inducements. Such monies are classified as “segregated client funds” in accordance with the CySEC regulatory requirements. Segregated client money accounts hold statutory trust status, according to regulatory requirements, restricting the Company's ability to control the monies and accordingly such amounts are not presented on the Company's statement of financial position.

7.1.2 K-ASA

The Company safeguards the real equity positions of its clients in accordance with the rules prescribed by the CySEC’s Directive DI87-01 for the Safeguarding of Client Assets, Product Governance Obligations and Inducements. The Company has selected a reputable sub-custodian, and neither it nor its general creditors have any right to sell, attach, or create a security interest in any financial instruments held, neither in case of the sub-custodian’s insolvency nor otherwise.

7.1.3 K-COH

The Group has arrangements and processes in place by which it assesses the liquidity providers and execution venues on which it relies upon to execute its client orders and that it monitors the credit standing and overall position of these parties so as to ensure that the risk of losses arising for the client as a result of the failure of such a party to execute a transaction, is minimized to the greatest extent possible. Furthermore, similarly to the aforementioned K-factors, relevant capital requirements are calculated and monitored on an ongoing basis and capital adequacy reports that calculate and monitor this K-factor, are being reported by the Risk Department on a quarterly basis to the BoD and the relevant regulatory authority.

7.2 Risk to Market

Risk to Market (‘’RtM’’) is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as equity prices, interest rates, foreign exchange rates and commodity prices. Market risk arises from the Company’s exposures to financial instruments and to changes in the market prices of these financial instruments. Market risk comprises of equity risk, interest rate risk, foreign exchange risk and commodity risk. There are two K-factors that capture the principal risks under RtM:

- **K-NPR (Net Position Risk)**

This k-factor is based on the rules for Market Risk for positions in equities, interest rate financial instruments, foreign exchange and commodities in accordance with CRR. Therefore, K-NPR captures the Market Risk, which is defined as the risk that the Company's income or the value of its holdings of financial instruments will change due to the change in market risk factors (market prices, non-trading book interest rates, non-trading book foreign exchange rates). Exposure to market risk at any point in time depends primarily on short term market conditions and the levels of client activity. Based on the reference year, this K-factor is applicable to the Company.

- **K-CMG (Clearing Margin Given)**

This is an alternative to K-NPR to provide for market risk for trades that are subject to clearing or on a portfolio basis, where the whole portfolio is subject to clearing or margining as set out in Article 23 of IFR. CMG means the amount of total margin required by a clearing member or qualifying central counterparty, where the execution and settlement of transactions of an investment firm dealing on own account take place under the responsibility of a clearing member or qualifying central counterparty. Based on the reference year, this K-factor is not applicable to the Company due to the nature of its operations.

7.2.1 K-NPR

Currency Risk

Currency (or Foreign Exchange) risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates, and arises when future commercial transactions and recognised assets and liabilities are denominated in a currency other than the Company's functional currency (i.e. the US Dollar).

Foreign currency exposure is controlled with limits on deposits in foreign currency. In addition, traders hedge their trades in foreign currency in the FX market. The Company's policy prohibits foreign currency positions for more than one day and not related to the standard settlement requirements of securities trading or to positions hedging. Furthermore, the Company's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

Interest Rate Risk

Interest rate risk is the risk that the value of interest rate bearing assets/liabilities will fluctuate due to changes in interest rates. Interest rate risk is not considered material, since the effect of a small shift of the base interest rate will not have a material impact on the overall results of the Company. The Company has interest rate-bearing assets, which mainly comprise of short-term deposits. The Company ensures that it obtains competitive market interest rates for its deposits and for its credit line facility with its parent company. Furthermore, as at 31 December 2021 the Company did not have any open positions in fixed income bonds.

From time to time the Company may hold fixed income instruments which can expose it to Interest rate risk. As a mitigating measure against Issuer Risk, the Company does not hold the bonds until maturity, while its Bond positions relate to liquid blue chip Eurobonds. At the same time, position limits and stop loss limits are in place.

As at 31 December 2021 the Company did not have any open bond positions, however the cash legs of its repo and reverse repo transactions with its parent company gave rise to Interest rate risk , which due to their short maturity resulted to minimal capital requirements.

Price Risk

The Company is exposed to price risk from fluctuations in security prices in relation to securities held. The risk arising from changes in securities prices is managed through diversifications of the investment portfolio and short term holding of securities. In certain circumstances, the Company may take positions as part of corporate brokerage transactions being conducted on behalf of clients where this is related to the wider activities of facilitation of agency broking. Such positions are carefully monitored and may only be taken within the limits applied to the overall long or short positions permissible, as well as a limit on positions in a single stock.

7.3 Risk to Firm

Risk to Firm (“RtF”) captures an investment firm’s exposure to the Risk of Default of its Trading Counterparties (K-TCD), the Concentration Risk arising from its exposures to counterparties and their connected persons (K-CON) and Operational Risks from its Daily Trading Flow of transactions (K-DTF). There are three K-factors that capture the key aspects of RtF, namely:

- **K-TCD (Trading Counterparty Default)**

K-TCD means the exposures in the trading book of an investment firm in specific instruments and transactions giving rise to the risk of trading counterparty default. This methodology replaces the old Counterparty Credit Risk that used to be applicable under the old framework, CRR. The Company, throughout the year under review, was exposed as a result of its repo and reverse repo transactions performed with its parent company, which are booked in the Trading Book.

- **K-DTF (Daily Trading Flow)**

K-DTF means the daily value of transactions that a CIF enters through dealing on own account or the execution of orders on behalf of clients in its own name, excluding the value of orders that a CIF handles for clients through the R&T of client orders and through the execution of orders on behalf of clients which are already considered in the scope of COH. No similar risk was captured under the old regime, CRR. DTF aims to capture the operational risks from an CIF’s daily trading flow. The Company is exposed to DTF due to the fact that it executes its trades on a principal basis (i.e. dealing on own account).

- **K-CON (Concentration Risk)**

K-CON means the exposures in the trading book of an investment firm to a client or a group of connected clients the value of which exceeds the limits specified in IFR. The concentration risk regime applies to all investment firms with exposure limits applicable to all investment firms that deal as principal, even where this is for clients. It is closely based on the CRR’s large exposures regime (Large Exposures in the Trading Book Risk), with derogations for non-trading book exposures. Based on the reference year, the Company was not subject to the risk relating to this K-factor.

7.3.1 K-TCD

The Company mitigates its exposure to K-TCD by arranging the trades to be performed back-to-back and through the use of a Master Netting agreement.

More specifically, the Company enters into repo and reverse repo transactions under an International Securities Market Association (ISMA) Global Master Repurchase Agreement. In general, under this agreement all amounts in the same currency payable by each party to the other under any transactions or otherwise under the said agreement on the same date shall be combined in a single calculation of a net sum payable by one party to the other and the obligation to pay that sum shall be the only obligation of either party in respect of those amounts. Therefore the Company has currently a legally enforceable right to offset recognized amounts.

7.3.2 K-DTF

As previously mentioned, DTF aims to capture the operational risks from an CIF's daily trading flow. Similarly, to TCD and CMH previously mentioned, DTF is calculated and monitored on an ongoing basis, by the Dealing and Risk Department, and in case of a limit breach, actions are taken place to rectify the issue immediately.

7.4 Other Risks

7.4.1 Regulatory Risk

Regulatory risk is the risk that may arise if a change in regulations occurs, which negatively affects the business of the Company. Regulatory risk may also arise when a company does not comply with the applicable regulatory requirements. The Company acknowledges the fact that it is exposed to Regulatory risk, since it operates in a highly regulated industry. Regulatory risk exposes the Company mainly to financial loss due to fines, civil action, payment of damages and the voiding of contracts. To this respect, the Compliance Officer oversees and ensures full compliance of the Company with the relevant CySEC regulation requirements and monitors employees on a regular basis. In addition, the Company uses independent internal and external auditors to assess its regulatory developments and has in place policies to ensure compliance with all regulatory requirements.

7.4.2 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 enters in matched principal trading and agency business which do not expose it to significant Liquidity risk. The Company has procedures with the object of minimising such losses, such as maintaining sufficient cash and other highly liquid current assets.

Liquidity risk from matched principal trading is mitigated by settlement taking place on a Delivery vs Payment (DVP) basis or Free of Payment (FOP), where the counterparty predelivers / prepays securities/cash for a specified trade. In rare occasions, the Company predelivers / prepays securities/cash to a counterparty within approved limits. Matched principal trading exposes the Company to intraday and overnight liquidity funding. The Company should have secure funding to buy securities before those securities are sold for same-day settlement. The Company has access to intraday credit facility from its parent company to facilitate the settling of its trades on the agreed settlement date. In certain occasions, the Company utilizes its cash reserves allocated for trading purposes and for other business and liquidity events.

7.4.3 Operational Risk (other than daily trading flow)

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

The Company manages Operational risk through a control-based environment in which processes are documented and transactions are reconciled and monitored. Upon detection of an incident, handling of the incident has first priority. All department managers are responsible for the proper handling, documentation and reporting of the incidents. The primary Operational risk incidents relate to system interruptions. For this reason, the Company has in place backup facilities on cloud environment and also backup systems within its office that enable recovery of all pending transactions, provide access to customers' accounts, and ensure continuous trading. Furthermore, the Company outsources its IT function to a specialized IT provider who is responsible for maintenance of hardware and internet usage.

8 Capital Requirements

The new IFR & IFD framework introduces a different approach for calculating the Minimum Capital Requirements, which for Class 2 investment firms dictates that they are derived by taking the highest of the Fixed Overhead Requirement ("FOR"), the Permanent Minimum Capital Requirement ("PMCR") and the K-factors that apply to each investment firm.

8.1 Fixed overheads requirement (FOR)

The fixed overheads requirement (FOR) applies to all CIFs. The FOR is intended to calculate a minimum amount of capital that a CIF would need available to absorb losses if it has cause to wind-down or exit the market. It is calculated as one quarter of the fixed overheads of the preceding year in accordance with the provision of Article 13 of IFR. The FOR as at 31 December 2021 amounted to $529K.

8.2 Permanent Minimum Capital Requirement (PMCR)

The Company monitors its Own Funds on a continuous basis and ensures that they remain above the Permanent Minimum Capital Requirement of €750K. However, the Firm's reporting currency is USD so, as at the reference date, this translates to $849.450, which corresponds to the initial capital that applies to the Company in accordance with Article 9 of the IFD.

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8.3 "K-factor" Capital Requirement

The Company calculates its overall "K-factor" capital requirement on a continuous basis which is the sum of "K-factor requirements" grouped in three categories: Risk-to-Client (RtC), Risk-to-Market (RtM), Risk-to-Firm (RtF), in accordance with Articles 16 through to 33 of the IFR (and as described in further detail in Section 3). The total K-Factors as at 31st December 2021 amounted to $213K.

Table below breaks down the Pillar I minimum capital requirement that the Company was required to hold as of 31st of December 2021.

Minimum Capital Requirements		**31 Dec 2021 ($'000)**
K-Factor Requirement		
Risk-to-Client (RtC)	K-AUM	-
	K-CMH	78
	K-ASA	44
	K-COH	1
Risk-to-Market (RtM)	K-NPR	81
	K-CMG	-
Risk-to-Firm (RtF)	K-TCD	8
	K-DTF	1
	K-CON	-
Total K-Factor Requirement		213
Fixed Overhead Requirement ('FOR')		529
Permanent Minimum Capital Requirement ('PMCR')		849

As indicated in table below, as at 31 December 2021 the CAD ratio of the Company amounted to 4464%, which far exceeded the minimum required threshold of 100%, and a capital surplus of $37.077k.

Capital Excess/Ratio

(USD)	31 Dec 2021 ($'000)	Reference
Capital		
Common Equity Tier 1	37.926	
Additional Tier 1	-	
Tier 2	-	
Total Own Funds	**37.926**	***a***
Own Funds Requirement		
K-factor Requirement	213	*b*
Fixed Overhead Requirement	**529**	*c*
Permanent Minimum Capital Requirement	**849**	*d*
Minimum Own Funds Requirement	**849**	***e = (higher of b, c, d)***
Capital Excess/Ratio		
Capital Excess	**37.077**	***a-e***
Capital Ratio	**4464,80%**	***a/e***

9 Remuneration Disclosures

The Company, due to its size, nature of business and scale, is not obliged to set up a Remuneration Committee and instead the responsibilities of the Remuneration Committee are performed by the Board of Directors. The Compliance department has provided guidance in accordance with the requirements of the applicable Law as regards the Remuneration components and variables. The Remuneration Policy forms an integral part of the Company's corporate governance and is developed in accordance with its operational model and business strategy.

The Policy aims to ensure that employees' compensation is sufficient to retain and attract individuals with appropriate skills and experience, and that it is in line with the business strategy, objectives, values and long-term interests of the Company. The Policy also aims to mitigate any conflicts of interest that may arise from the compensation packages that are given to the Company's employees. In addition, remuneration is designed so that it does not encourage risk-taking that exceeds the Company's approved risk tolerance.

Accordingly, the operating standards and mechanisms adopted, aim to ensure that the level of reward provided to employees is directly linked to the desired behaviours and results, as defined by the Board of Directors as well as by the Company's documented policies and procedures.

The Remuneration Policy takes into account national criteria on wage setting and makes a clear distinction between criteria for setting: i) basic fixed remuneration, which should primarily reflect relevant professional experience and organisational responsibility as set out in an employee's job description as part of the terms of employment; and ii) variable remuneration which should reflect a sustainable and risk-adjusted performance, as well as performance in excess of that required to fulfil the employee's job description as part of the terms of employment. It is designed to be in line with the business strategy, objectives, values and long-term interests of the Company, and incorporates measures to avoid conflicts of interests between employees, the Company and the Company's clients.

The remuneration components are:

<u>Fixed remuneration</u>

Fixed remuneration is determined on the basis of the role of the individual employee, including responsibilities and job complexity, performance and local market conditions. Furthermore, fixed remuneration takes into consideration each individual's "work" characteristics, including:

- Skills and competencies required to generate results
- Relevant professional experience and organisational responsibility as set out in an employee's job description as part of the terms of employment
- Contribution to the team and the Company as a whole, and

- The value and contribution of the individual in the context of the external market.

In respect of the above, the General Manager may perform annual reviews of the fixed remuneration of the employees, following which, a recommendation for salary increases may be made to the Board.

Variable remuneration

If the Company decides to proceed with the variable elements of remuneration, then the Company must set the appropriate ratios between the fixed and the variable component of the total remuneration and the following principles shall apply:

The variable component shall not exceed 100% of the fixed component of the total remuneration for each individual. Shareholders of the Company may approve a higher maximum level of the ratio between the fixed and variable components of remuneration provided that the overall level of the variable component does not exceed 200% of the fixed component of the total remuneration for each individual.

Any ratio of variable remuneration above 100% of the fixed component of remuneration must be carried out in accordance with a specific procedure. The Company must notify all shareholders, providing a reasonable notice period in advance, that an approval of a higher ratio of variable component of remuneration exceeding 100% of the fixed component of employee(s) will be sought.

Performance-based remuneration:

The Company seeks to ensure that performance-based pay is awarded by ensuring that:

- An appropriate balance exists between fixed and performance-based components
- The fixed component represents a sufficiently high proportion of the total remuneration to make non-payment of the performance-based component possible, and
- The above variable elements of remuneration criteria are met where applicable.

Employees in control functions, including Compliance and Risk Management, are also eligible for performance-based pay. In essence, performance-based remuneration is based on the value brought to the Company from the control and risk management procedures and improvements that are set in place and contribute to the Company's successes. It is noted that the remuneration of persons in such positions is independent of the performance of the business area which they monitor/control (i.e. the income generated by the business area).

As regards the amount of performance-based remuneration, the General Manager makes a recommendation to the Board of Directors, which the Board later considers and either approves or rejects. The Company maintains full records of the minutes of the meeting of the Board in which these decisions are taken so as to promote and maintain full transparency.

In regards to the remuneration of the Board of Directors, the basic fee of a Board member is set at a level that is on par with the rest of the market and the qualifications and contribution required in view of the Company's operational complexity, the extent of responsibilities and the number of Board meetings. Furthermore, given that the Executive Directors receive compensation (salary) as members of the Company's staff, no further remuneration is paid for their participation on the Board. On the other hand, Non-Executive Directors receive an indicative fee for their participation, which is a reflection of their expertise. No pension contributions are payable on the Board members' fees.

Pension Policy and Severance Payments Policy

The Company does not have a Pension Policy nor does it maintain a Severance Payments Policy. In the event of severance payments, these will be payable in accordance with the applicable employment laws at the time.

Aggregate Remuneration

During 2021, the remuneration structure offered by the Company to management and staff comprised of a fixed salary cash component and non-cash benefits including medical insurance. The Company also paid bonus in the form of cash to reward outstanding employee performance during the year. Information on the aggregate remuneration to Senior Management and staff whose actions have a material impact on the risk profile of the Company as at 31 December 2021 is provided in the following table:

	No. of people	Aggregate Remuneration USD ‘000	Cash - Fixed USD ‘000	Cash -Variable USD ‘000
Senior Management* (incl. Executive & Non-Executive Directors)	12	1,042	835	207
Other staff	3	134	122	12

**Senior Management includes the Non-Executive Directors, two Executive Directors and Heads of Departments. One Executive Director is not remunerated by the Company. Two of the twelve members left the company during 2021.*

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

	No. of people	Aggregate Remuneration USD ‘000	Cash - Fixed USD ‘000	Cash -Variable USD ‘000
Directors (Executive & Non-Executive) and Control Functions	6	566	450	116
Back Office, Brokerage, Accounting & Dealing on Own Account	6	476	385	91
Total	12	1,042	835	207

During 2021, no sign-on or severance payments were made or awarded and no deferred remuneration was paid or awarded. Moreover, all variable remuneration was paid in cash.

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Annex I

Template EU IF CCA: Own funds: main features of own instruments issued by the firm

		Common Equity Tier 1 Capital
1	Issuer	GPB Financial Services Ltd
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Public or private placement	Private
4	Governing law(s) of the instrument	Cyprus Law
5	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
6	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	$5.3 Million
7	Nominal amount of instrument	4 Million
8	Issue price	EUR 1 each
9	Redemption price	N/A
10	Accounting classification	Shareholder's Equity
11	Original date of issuance	Feb-2009 1.5 Million Feb-2010 1.0 Million April-2010 2.5 Million
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
21	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
22	Existence of step up or other incentive to redeem	No
23	Noncumulative or cumulative	Non-cumulative
24	Convertible or non-convertible	Non-convertible
25	If convertible, conversion trigger(s)	N/A
26	If convertible, fully or partially	N/A
27	If convertible, conversion rate	N/A
28	If convertible, mandatory or optional conversion	N/A
29	If convertible, specify instrument type convertible into	N/A

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30	If convertible, specify issuer of instrument it converts into	N/A
31	Write-down features	No
32	If write-down, write-down trigger(s)	N/A
33	If write-down, full or partial	N/A
34	If write-down, permanent or temporary	N/A
35	If temporary write-down, description of write-up mechanism	N/A
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
38	Link to the full term and conditions of the instrument (signposting)	N/A
(1) Insert 'N/A' if the question is not applicable		

Annex II

Information flow on risk to the management body

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