Otkritie Securities Limited

Pillar 3 disclosures

for the year ended 31 December, 2012

12th Floor, 88 Wood Street
London EC2V 7RS
t.: +44 20 7826 8200
f.: +44 20 7826 8201
info@otkritie.com

Contents

1. Overview

The new Basel Accord (Basel 2) was implemented in the European Union (EU) through the Capital Requirements Directive (CRD) on 1 January 2007. The new framework consists of three 'pillars' which are complementary and mutually-reinforcing.

- Pillar 1 (minimum capital requirement) of the new standards sets out the minimum capital requirements covering credit, market and fixed overhead requirement risk.
- Pillar 2 (supervisory review process) requires banks and supervisors to take a view on whether a bank should hold additional capital against risks not covered in Pillar 1 and to take action accordingly within the Internal Capital Adequacy Assessment Process (ICAAP).
- Pillar 3 (market discipline) disclosures provide the reader with information on a bank's capital structure, capital adequacy, risk management policies and general risk profile of a bank.

In accordance with the requirements of Chapter 11 of BIPRU, the disclosures included in this website relate to the company and are required to be made on an annual basis at a minimum and if appropriate some disclosures will be made more frequently. Otkritie Securities Limited ("OSL") has an Accounting Reference Date of 31 December. These disclosures are made as at 31 December 2012.

These disclosures have been put together to explain the basis of preparation and disclosure of certain capital requirements and provide information about the management of certain risks and for no other purposes. These disclosures are not subject to audit, they do not constitute any form of audited financial statement and have been produced solely for the purposes of satisfying Pillar 3 requirements. The Board is responsible for the company's system of internal control and for reviewing its effectiveness. Such a system can provide only reasonable and not absolute assurance against material financial misstatement or loss and is designed to mitigate, not eliminate, risk.

2. Business Model

The business model of OSL can be characterised as a broker specialising in prime services and client orders' execution for various financial instruments: fixed income securities, equities and derivatives. OSL's income is generated by earning commissions from transactions on a brokerage basis and by earning interests on margin trading by the clients, securities financing, equities lending and borrowing.

3. Risk overview

Risk is an integral part of OSL business. The main risks faced by OSL are credit risk, market risk, liquidity risk and operational risk.

Risk Management's aims are to identify, quantify and assess all risks and to set appropriate prudential limits consistent with the risk appetite of the group.

OSL Risk Management actively manages the risks through real-time monitoring and daily reporting on credit, market and operational risk. The Company's Risk Department works closely with the Front Office to ensure relevant limits are being approved and limit breaches are being monitored.

OSL has a set a risk management framework consisting of several layers, including Risk Management Committee, Board Risk Committee, Board Audit Committee which focus on the various risks faced by the Company. Risk Management Committee consists of the Firm's senior management whereas Board Risk Committee and Board Audit Committee consist of primarily non-executive directors. The Risk Appetite is defined by the Board along with the strategy of the Company. Based on that document the management sets the certain limits for various types of exposures.

The Directors determine the company's business strategy and risk appetite that recognise the risks that the business faces. The Directors meet on a regular basis and discuss current projections for profitability and regulatory capital management, business planning and risk management. The Directors manage the Firm's risks through a framework of policy and procedures having regard to relevant laws, standards, principles and rules, with the aim to operate a defined and transparent risk management framework. These policies and procedures are updated as required. The Firm follows the standardised approach to market risk and the standard approach to credit risk.

4. Capital base

The Company's capital base comprises only of Original Own Funds (Core Tier 1 Capital), namely permanent share capital and share premium account. As it was disclosed in the 2011 financial statements due to an exceptional event the company incurred a loss of £49,915,118 and had net assets £1,716,178. At the same time the company's parent has provided a guarantee against any and all remaining liabilities which the company may have in relation to this matter. The regulator was duly informed.

In 2012 the company has £162.4M as available capital resources. As consequences of events in 2011 the company passed through a series of enhancements in systems and controls area as well as in governance arrangement with revised risk appetite that helps to maintain more sustainable growth. The core strength of the business is its ability to be cash generative, which reflects its ability to manage its working capital requirements and to maintain high levels of liquidity resources. The company has a good client base and client retention is high.

The table below shows the Company's regulatory capital base as at 31 December 2012.

	Year ended 31/12/2012
Original Own Funds	
Permanent Share Capital	209,894
Share premium account	2,730
Profit&Loss	-51,139
Total Original Own Funds	**161,485**
Additional Own Funds	-
Total Eligible Own Funds	**161,485**

Figures are represented in £ '000

5. Internal Capital Adequacy Assessment Process

OSL undertakes an Internal Capital Adequacy Assessment Process (ICAAP) which is a system of sound, effective and complete strategies and processes that allow institutions to assess and maintain, on an ongoing basis, the amounts, types and distribution of internal capital that they consider adequate to cover the nature and level of risks to which they are or might be exposed.

This is undertaken annually or more frequently if required and outcome is presented in a separate ICAAP document. The ICAAP covers all material risks to determine the capital requirement to satisfy regulatory requirements.

OSL defines capital as the resources necessary to cover all relevant risks. The ICAAP by which the Board examines the Company's risk profile and sets a risk appetite to ensure the level of capital:

- Remains sufficient to support the Company's risk profile and outstanding commitments;
- Exceeds the Company's minimum regulatory capital requirements communicated to the FSA; and
- Remains consistent with the Company's strategic and operational goals.

6. Risk Appetite

The Board articulates the risk appetite for its activities and stipulates it in risk appetite statement. The Company defines Risk Appetite as representing the amount and type of risk it is prepared to accept, tolerate or be exposed to at any point in time in the context of its business model and in the course of achieving its business objectives.

There are risk policies and procedures, risk operating manuals and risk limits in place, in order to make those risks manageable for the purpose of gaining on market uncertainties, increase the value of the company and implement risk-awareness into decision making process. As part of the annual ordinary business planning process, the Company's Risk Appetite statement is communicated by the Company's Board to its Risk Management Committee and Senior Management. The Company incorporates measurements of earnings, capital adequacy, reputation and regulatory compliance against plan targets in its monthly management reporting packs which contain the appropriate KPIs/KRIs.

The Firm has assessed its overall risk appetite also taking into account its systems and controls, policies and procedures that allow us to mitigate most risks before they crystallize. The Firm has however provided for an additional capital buffer under Pillar 2 in order to cover any additional risks.

This assessment is based on:

- The historical track record of OSL business which had been consistently profitable over the last few years.
- The Firm deals with well-established and reliable counterparties.
- The Firm bears credit exposure in non-trading book.
- The Trading Book activities scope includes the facilitation of clients' orders and principal trading activities.

- The Firm has limited its client base to professional clients and eligible counterparties only classified in accordance with MiFID.
- The Firm reinforces its efforts to comply with CASS rules and maintain the protection to clients' money and clients' assets.
- The Firm mainly focuses its business activities to various financial instruments traded in Russian financial markets or derived from/ based on those.
- The firm's risk profile should also be optimized using risk transfer and risk mitigation tools.

7. Credit Risk

OSL defines counterparty risk as a combination of pre-settlement and settlement risk:

- Pre-settlement risk is defined as the risk that one party of a contract will fail to meet the terms of the contract and default before the contract's settlement date, prematurely ending the contract. This type of risk can lead to replacement-cost risk.
- Settlement risk is the risk that one party will fail to deliver the terms of a contract with another party at the time of settlement. Settlement risk can be the risk associated with default at settlement and any timing differences in settlement between the two parties. This type of risk can lead to principal risk. Settlement risk is the possibility one counterparty will never pay or deliver to another counterparty.

As a significant proportion of the Company's transactions are conducted on the basis of "delivery versus payment", this minimises the risk of exposure to any trading positions. This does not however eliminate risk entirely in the combination of circumstances in which the counterparty fails and the value of stock awaiting settlement against payment has changed adversely. To guard against this, OSL sets limits for various counterparties and monitors these limits constantly.

OSL provides services of trading in exchange traded derivatives, margin trading, securities financing, equities lending and borrowing. Exposure values to clients through the provision of these services are determined using mark to market methods. In all cases where such transactions place the client or OSL at risk, OSL will hold adequate collateral and provisions for netting arrangements. This normally takes the form of a lien over the customer's assets giving a claim on these assets for both existing and future liabilities.

The OSL Risk Management assesses counterparties' creditworthiness, and assigns to them internal credit ratings, which are mapped on external rating.

The total Company's credit risk capital requirements are presented in the table below (£000)

Risk Weighted Assets for Credit Risk	Pillar 1 Requirement	Additional Capital Requirement (Pillar 2)	Internal Capital allocated for Credit Risk
651 415	52 113	8 899	61 013

Additional capital requirement for credit risk under ICAAP was mainly caused by credit concentration risk. In order to obtain the figure for additional capital the firm has taken a Herfindahl Hirschman Index.

Concentration risk is defined as the risk of loss of income through external changes having a disproportionate impact on overall income due to a reliance on revenue from certain sectoral, geographic areas and/ or business lines.

Broking activities represent a significant proportion of total income with the majority relating to financial instruments originated in or related to Russian financial market and consequently is an area where concentration risk exists. Brokerage income is diversified into revenue from securities lending and borrowing, client orders facilitation, proprietary trading, agency dealing commission.

Credit risk concentrations include:

- A significant exposure to an individual counterparty or group of counterparties;
- Credit exposures to counterparties in the same economic sector or geographic region;
- Credit exposures to counterparties whose financial performance is dependent on the same activity or commodity; and
- Indirect credit exposures arising from a bank's CRM activities (e.g. exposure to a single collateral type or to credit protection provided by a single counterparty).

Trigger events that can exercise concentration risk are as follows:

- The company uses one settlement agent.
- Amounts due from connected companies.
- Default of a large transaction with a counterparty.

Risk mitigation:

Currently OSL uses the settlement services of a world major financial group entity focused on providing a wide range of such service globally, it is a regulated entity which has an excellent credit rating.

For Russian Local stock the settlement agent is an affiliated entity with very similar risk management approach approved at the group level.

For futures and options business there are two main settlement and clearing agents – entities belonging to 2 independent world major financial groups, both are regulated entities with an excellent credit rating.

Inter-company balances are settled immediately. Members of the group are well capitalised and in addition have the financial support of the ultimate shareholder were further funds required.

8. Market risk

Market risk is the risk that arises from fluctuations in values of, or income from, assets and asset prices or in interest or exchange rates. Based on a voluntary variation of permission and consequently on the change of the firm's strategy market risk of the firm has become one of the main risk factors. The company is exposed to the market risk in several instruments – equity business, equity derivatives, fixed income securities. The firm is also exposed to FX risk due to the fact that reporting currency is currently different from main business currency, that deviation was inherited after VVOP.

Market risk capital requirement of OSL under Pillar 1 is GBP 76,101 mln. For principal trading activity the firm assumes that amount of additional capital is £1.95M calculated using 99% 10-day VaR. The company's Risk Management used 99% 10-day VaR to find the additional amount of capital required to cover FX risks which are not fully covered by Pillar 1.

Business lines	Pillar 1 Requirement	Additional Capital Requirement (Pillar 2)	Internal Capital allocated for Credit Risk
Principal Trading	66,502	1,950	68,452
FX	9,599	2,382	11,981
Total	**76,101**	**4,332**	**80,433**

9. Liquidity Risk

Liquidity risk is the risk that OSL will encounter difficulty in meeting its obligations from its financial liabilities. OSL' policy is to ensure that, as far as possible, it will always have sufficient liquidity to meet its financial liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation. OSL maintains a portfolio of short-term deposits to ensure that sufficient liquidity is maintained. The liquidity position is monitored on a daily basis and management information provided daily to the senior management. The Company deems there is sufficient liquidity for the near future. Risk Management together with Treasury applied stress-test scenario (extension of the spread up to 250 bp to LIBOR) for liquidity matrix and based on that the company assumes that additional requirement of £105K would be sufficient to cover this type of risk.

10. Operational Risk

OSL defines Operational Risk as the risk of loss resulting from inadequate or failed internal processes, human behaviour and systems or from external events. OSL' manages this risk through policies, procedures and internal controls to ensure compliance with laws and regulations. The quality and timelines of risk mitigation are monitored by Board Risk Committee, Risk Management Committee and the Risk Management Department. Further assurance is provided by the Group's internal audit and OSL's compliance departments. Based on an occurrence of a highly exceptional event the Board decided to set additional capital requirements in this area equal to £5,606K.

11. Remuneration Policy Disclosures

1) Information concerning the decision-making process used for determining the remuneration policy

The Board of Directors is responsible for all decisions relating to remuneration. Recommendations are made based on individuals' performance in the prior year, considering non-financial metrics and the firm's overall position.

Heads of departments and business units, in consultation with line management, complete an annual review of all employees' base salaries and recommend amendments where these are considered to be merited. The recommendations are considered by the Board of Directors and, if approved, will usually be implemented with effect from 1 May each year.

Decisions on remuneration are taken by the Board of Directors and they retain the responsibility for ensuring implementation of the Code, ongoing compliance and the identification of Code Staff.

The Employee shall have right to a bonus or a time-apportioned bonus if he/she has been employed throughout the whole of the relevant financial year of the Company.

2) correlation between pay and performance;

Bonuses are based on the achievement of a number of previously approved goals. This is combined with an overall review of performance carried out by management. Such a review will consider non-financial metrics.

Given the above, the firm's remuneration practices do not encourage inappropriate risk taking. It follows that in determining the level of bonus, bonus will only be granted when the firm considers that such an award is consistent with the firm's strategy, values and long-term interests.

The allocation of the bonus pool is based on the contribution of each business unit within the firm as demonstrated by the management accounts, and of each individual's contribution to the firm's results as assessed during the performance appraisal process completed during February each year.

Each employee's performance appraisal is properly documented by the appraising manager so that the link between performance and bonus allocation is clear. Non-financial performance criteria form a significant part of the performance assessment process, with explicit reference to the firm's breaches, dealing errors, complaints, CPD training records and any outstanding audit points. Poor performance in non-financial metrics is likely to over-ride metrics of financial performance.

Bonuses are awarded in a manner that promotes sound risk management and does not induce excessive risk-taking. This is done by ensuring that:

- An appropriate balance exists between fixed, performance-based components and deferred bonus component.
- The fixed component represents a sufficiently high proportion of the total remuneration to make non-payment of the performance-based component possible.
- The performance-based component reflects the risk underlying the achieved result.
- The deferred bonus component focuses on risk and sustainability, as well as aids the retention.
- Awarded performance-based pay may be forfeited in full or in part if granted on the basis of unsatisfactory results of the appraisal.
- The bonus may be adjusted to reflect performance even after the employee has been notified of the bonus.
- Employees with less than 1 year of service are not entitled to the bonus.

Performance-based remuneration pools must be based on an assessment of the Firm's budget performance. The Board has responsibility to decide on the funds to be allocated to the performance-based remuneration pools. The Firm's Risk control function is involved to ensure that risk, capital and liquidity limits are not exceeded.

The Board has discretion in the allocation of the pool to business divisions. The Board must make recommendations on allocation of the pool to the Business/Support Units.

Line Managers for each Business/Support Unit have discretion on allocating bonus payments to individuals in their department. The appraisal results are taken into consideration when the bonus pool is distributed.

When allocating the bonus pool, the Board may consider other factors:

- Contribution of the division to earnings;
- Assessment of the contribution to risk management and compliance by function (in case of a support function);
- Assessment of risk management and compliance by the division (in case of a business unit);
- Appraisal results;
- Length of service;
- Disciplinary records;
- Compliance breach records

For the avoidance of doubt, any instance of failure to comply with relevant legislation, regulations, or internal policies and procedures will be taken very seriously and will impact upon the level of any element of variable remuneration which might otherwise have been awarded.

The following forms of financial compensation are prohibited:

- Payments from a company within the Financial Corporation OTKRITIE JSC group of companies other than OSL unless approved by the Board of OSL.
- Money or cash convertible gifts or inducements (as described in Conflicts of Interest Policy).
- Bribes (further information in Bribery and Corruption Policy).

In addition, employees are prohibited from entering into a personal hedging strategy or taking out insurance contracts against any downward adjustment to their remuneration, or any other practice that largely or wholly negates this Policy's purpose to achieve risk alignment.

Any paid work not forming part of the employee's employment contract with a member of the Otkritie Financial Corporation must be pre-approved in accordance with the Outside Business Interests Policy, found in the Compliance Policy.

12. Capital Requirements Directive Pillar 3 disclosure

The following table summarizes OSL's regulatory capital resources at 31 December, 2012:

Capital Requirement Calculation Breakdown	£000
Base capital resources requirement	**600**
Total variable capital requirement	**134 348**
Credit risk	52 113
Market risk	76 101
Operational risk	3 073
Total Capital requirement under Pillar 1	**134 348**
Capital resources	162 360
Excess over Pillar 1 requirements	28 012
Total Capital requirement under Pillar 2	**26 714**
Total Internal Capital Requirements	**161 062**
Excess over Internal Capital	1 298

There is currently a surplus between the capital resources of the company and the capital requirements of the company as detailed above.

Further enquiries

Should you have any queries, please contact:

David Moss, Compliance Officer
Direct Line: +44 (0) 20 7826 8235
Fax: + 44 (0) 20 7826 8201
E-mail: david.moss@otkritie.com