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Pillar 3 disclosures

for the year ended 31 December, 2010

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 2010.

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 an agency broker specialising in execution services for both equities and derivatives. OSL's income is generated by earning commissions from transactions on a brokerage basis and by earning interests on margin buying 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 market risk, counterparty risk, liquidity risk, custody 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 Credit Risk Department works closely with the Trading Department to ensure relevant limits are being approved and limit breach are being monitored.

OSL has a Risk Committee which focuses on the risks of significant degree faced by the Company. The minutes of the Risk Committee are reviewed by OSL's Directors.

OSL Senior Management also meet on a frequent basis for conducting the review of the business to ensure day-to-day responsibilities are being discharged and the efficient running of the business. Senior management is responsible for the formulation and implementation of the Board strategy.

The Directors determine the company's business strategy and risk appetite along with designing and implementing a risk management framework that recognises the risks that the business faces. They also determine how those risks may be mitigated and assess on an ongoing basis the arrangements to manage those risks. 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 though 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 simplified standard approach to credit risk.

4. 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.

5. Counterparty 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 as shown in Table 1 below.

Table 1. Internal rating scale and mapping of external ratings

<table>
<tr><th>Internal Rating Group</th><th>Internal rating sub-division</th><th colspan="3">External rating</th><th>Maximum OSL capital, allocated to counterparty exposure in this rating group</th></tr>
<tr><td rowspan="10">1 group</td><td>1_INV</td><td>Aaa</td><td>Aaa</td><td>AAA</td><td>50,00%</td></tr>
<tr><td>2_INV</td><td>Aa+</td><td>Aa1</td><td>AA+</td><td>48,00%</td></tr>
<tr><td>3_INV</td><td>Aa</td><td>Aa2</td><td>AA</td><td>46,00%</td></tr>
<tr><td>4_INV</td><td>Aa-</td><td>Aa3</td><td>AA-</td><td>44,00%</td></tr>
<tr><td>5_INV</td><td>A+</td><td>A1</td><td>A+</td><td>41,00%</td></tr>
<tr><td>6_INV</td><td>A</td><td>A2</td><td>A</td><td>38,00%</td></tr>
<tr><td>7_INV</td><td>A-</td><td>A3</td><td>A-</td><td>35,00%</td></tr>
<tr><td>1</td><td>BBB+</td><td>Baa1</td><td>BBB+</td><td>32,00%</td></tr>
<tr><td>2</td><td>BBB</td><td>Baa2</td><td>BBB</td><td>29,00%</td></tr>
<tr><td>3</td><td>BBB-</td><td>Baa3</td><td>BBB-</td><td>26,00%</td></tr>
<tr><td rowspan="5">2 group</td><td>4</td><td>BB+</td><td>Ba1</td><td>BB+</td><td>24,00%</td></tr>
<tr><td>5</td><td>BB</td><td>Ba2</td><td>BB</td><td>22,00%</td></tr>
<tr><td>6</td><td rowspan="2">BB-</td><td rowspan="2">Ba3</td><td rowspan="2">BB-</td><td>20,00%</td></tr>
<tr><td>7</td><td>18,00%</td></tr>
<tr><td>8</td><td rowspan="3">B+</td><td rowspan="3">B1</td><td rowspan="3">B+</td><td>16,00%</td></tr>
<tr><td rowspan="7">3 group</td><td>9</td><td>15,00%</td></tr>
<tr><td>10</td><td>14,00%</td></tr>
<tr><td>11</td><td rowspan="3">B</td><td rowspan="3">B2</td><td rowspan="3">B</td><td>13,00%</td></tr>
<tr><td>12</td><td>12,00%</td></tr>
<tr><td>13</td><td>11,00%</td></tr>
<tr><td>14</td><td rowspan="3">B-</td><td rowspan="3">B3</td><td rowspan="3">B-</td><td>10,00%</td></tr>
<tr><td>15</td><td>9,00%</td></tr>
<tr><td rowspan="3">4 group</td><td>16</td><td>8,00%</td></tr>
<tr><td>17</td><td>CCC+</td><td>Caa1</td><td>CCC+</td><td>7,00%</td></tr>
<tr><td>18</td><td>CCC</td><td>Caa2</td><td>CCC</td><td>6,00%</td></tr>
<tr><td>5 group</td><td>19</td><td>D</td><td>D</td><td>D</td><td>0,00%</td></tr>
</table>

6. Concentration Risk

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 settlement agent services of world major financial group entity focused on providing 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 the same risk management supervising on 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 entity 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.

Accordingly no capital for that type of risk was required under pillar 2.

6. Custody risk

Custody risk is the risk of loss on securities in OSL's safekeeping (custody) as a result of the sub-custodian's insolvency, negligence, misuse of assets, fraud, poor administration or inadequate record keeping. OSL mitigates custody risk through legal arrangements and dedicated operational processes.

7. Market risk

Market risk is the risk that arises from fluctuations in values of, or income from, assets or in interest or exchange rates. Whilst the Company engages in matched principal dealing this is primarily on a 'riskless' basis (back to back trades), the only risk in such circumstances being of counterparty failure, which is addressed under "Counterparty Risk" above. The Company has small currency exposures and runs positions in a variety of currencies, mainly in US dollars, to support clients' dealing activities. Policy permits but does not require that any significant net exposures to be hedged using forward currency contracts as soon as a commitment is made.

While changes in interest rates will affect our income, they should not pose a significant risk to the company.

Market risk exposure of OSL is GBP 4,056 mln, most of it allocated to FX risk exposure.

8. 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.

9. 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. Quality and timelines of risk mitigation is being monitored, by Risk Management, Risk Committee and the Otkritie Group Risk Management Department. Further assurance is provided by the Group's internal audit and the OSL's compliance departments.

10. Capital Requirements Directive Pillar 3 disclosure

The following table summarizes OSL's regulatory capital resources at 31 December, 2010:

Capital Requirement Calculation Breakdown	**£**
Operational risk	930 000
Credit risk	7 285 000
Market risk	4 056 000
Capital requirement	12 271 000
Capital resources	34 554 000
Excess	22 283 000

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

11. Further enquiries

Should you have any queries, please contact:

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