

Pillar 3 Disclosure

May 2010

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1. Introduction

The Capital Requirements Directive (CRD) is the framework for implementing Basel II in the European Union. Basel II implements a risk sensitive framework for the calculation of regulatory capital. The CRD consists of three 'pillars':- Pillar 1 sets out the minimum capital requirements that entities are required to meet for credit, market and fixed overhead requirement risk. For Pillar 2, firms take a view on whether a firm 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 requires firms to publish certain details of their risks, capital and risk management.

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. Okritie Securities Limited (further OSL) has an Accounting Reference Date of 31 December. These disclosures are made as at 31 December 2009.

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 management

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 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 simplified standard approach to credit risk.

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.

4. Internal Capital Adequacy Assessment Process

OSL undertakes an Internal Capital Adequacy Assessment Process (ICAAP) which is an internal assessment of capital requirements. 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. 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 timeliness 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.

6. Credit Risk

The components of credit risk that are relevant to OSL are:

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.

7. 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.

8. 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 "Credit 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.

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.

10. Capital Requirements Directive Pillar 3 disclosure

As at 31 December 2009, the firm's Pillar 1 requirement is in the range of £930,000 while its Pillar 2 requirement is £1,410,000. Tier 1 Capital was in the sum of £10,993,473.

The firm as a limited license firm its capital requirement are greater of: Base capital requirement of €125,000; or the sum of its market, credit risk requirement or fixed overhead requirement; or its Internal Capital Adequacy Assessment Process (Pillar II) requirement. The firm has not omitted any disclosures on the grounds of confidentiality.

11. Further enquiries

Should you have any queries, please contact:

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