

CSD RATINGS REPORT



THOMAS MURRAY

Public Rating
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The Depository Clearing Company (DCC)

Role of the Depository

The Depository Clearing Company (DCC) is the largest settlement depository for the Russian equities market and was established on 29 October 1993 under the Federal Commission on Securities Market (FCFM) project, sponsored by US AID. DCC is closely linked with the RTS Stock Exchange.

DCC is used for settlement and safekeeping of equities traded on the RTS Classic Market, RTS Stock Exchange, the stock section of St. Petersburg Currency Exchange (SPCEX) and the Stock Exchange "St. Petersburg" (SPBEX). DCC also settles trades for the MICEX Stock Exchange via its link with NDC, as well as the majority of OTC equity trades. In 2003 it started offering safekeeping services for Unit Investment Funds (PIFs). In 2006, GDRs, SDRs and other securities of non-Russian issuers were accepted for safekeeping. DCC also has nominee accounts with correspondent depositories; Sherbank for Rosneft shares, Gazprombank for Gazprom shares, VTB for depository receipts and Citibank to facilitate transfers between Citibank custody clients and DCC participants.

DCC settles ordinary and preference shares, as well as some municipal and corporate bonds. DCC provides a wide range of depository services and is a leading re-registration agent for Russian equities. All Russian equities are held in registered dematerialised form, no Russian stocks are issued in paper form.

DCC is a Closed Joint Stock Company regulated by the Federal Financial Markets Service (FFMS) and governed by shareholders, which comprise top financial institutions operating on the Russian securities market. DCC provides depository and clearing services in accordance with permanent FFMS licences 177-06236-000100 and 177-06229-000010.

The Russian Trading System (RTS) currently holds a 56.5% stake in the ZAO DCC, thus creating a vertical silo for the equities business. The National Depository Centre (NDC) recently acquired a 27.9% shareholding in DCC from Rosbank plus holdings from Deutsche Bank, ING and Sberbank, taking its total holding to 37.0%. Three Russian financial institutions own the remaining 6.5%. According to the latest draft of the CSD law, in order to obtain a CSD licence, DCC will be required to increase its capital to USD 37 million.

The settlement period for securities is largely negotiated between the counterparties but typically is T+4 or shorter. Also more than 50% of trades are settled on a FOP basis. Although a DVP process has been established, it only represents around 9% of settlements by value.

Thomas Murray CSD Public Rating for DCC is A

Public CSD Rating	Overall Rating	Asset Commitment Risk	Liquidity Risk	Counterparty Risk	Financial Risk	Operational Risk	Asset Servicing Risk
DCC Rating:	A	A-	A-	A-	A	A	A+

The outlook for the rating is: On Watch

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Risk Rating Summary

	Risk Rating
OVERALL RISK RATING	A
<p>Asset Commitment Risk</p> <p>For pre-funded DVP settlements, which settle on a T+0 cycle, the asset commitment period is 3 hours for both buyers and sellers, while conventional DVP settlements have an asset commitment period of around 10 minutes, the duration of the batch. For RUB FOP settlements, sellers may suffer relatively high asset commitment risk because cash moves independently of securities settlement. FOP transactions between non-residents settle in USD offshore, further adding to the asset commitment period.</p>	A-
<p>Liquidity Risk</p> <p>For DVP settlements, there is liquidity risk since the positive benefit of netting is offset by an absence of credit and stock lending facilities. For FOP settlements liquidity risk is significant due to the gross settlement method used. For sellers of securities not registered in DCC's nominee name the liquidity risk is even higher due to a lengthy and expensive re-registration process that has to occur prior to settlement.</p>	A-
<p>Counterparty Risk</p> <p>Counterparty risk exposure varies by market and type of settlement. Counterparty risk is low for pre-funded DVP settlements and conventional DVP settlements. For FOP settlements (50% by settlement value as a result of market choice) counterparty risk exposure is high. Risk minimisation measures such as guarantee funds, collateral postings and minimum capital requirements for participants are absent, although the DCC does monitor participant volumes.</p>	A-
<p>Asset Servicing Risk</p> <p>DCC, as a settlement depository, provides a corporate action service to its clients. It attempts to provide complete and accurate information of events and process client's instructions speedily and accurately. However, the fragmented nature of registrars and the lack of any official source of information, make this service difficult to provide. As a part of its services it provides a level of protection to its clients in the event that it is negligent.</p>	A+
<p>Financial Risk</p> <p>DCC has limited financial resources, with total capital and reserves at 31 December 2005 of USD 5.3 million, although this is supplemented by insurance coverage and shareholder support. DCC is a closed joint stock company governed by shareholders and majority owned by The Russian Trading System (56.5%). The National Depository Centre (NDC) owns 37.0%.</p>	A
<p>Operational Risk</p> <p>DCC's internal auditors and risk management committee provides on-going supervision of DCC activities and operational monitoring and control. DCC maintains an onsite back up system and an offsite back up centre which includes 10 work stations with designated areas for different departments. The Disaster Recovery Plan is tested annually without the involvement of participants. This poses some degree of risk as participants will have to re-direct their settlement instructions if they use EDI or paper.</p>	A
<p>CSD on CSD Credit Risk</p> <p>DCC has several domestic links including accounts at the National Depository Centre (NDC), another Russian depository against which it suffers a rolling credit risk; Gazprombank depository network for the settlement of Gazprom shares and Sberbank for the settlement of Rosneft shares. It has international links, through VTB, to Euroclear Bank and Clearstream Banking Luxembourg and a link with the CSD of Kazakhstan. This report should be read in conjunction with the assessments on those depositories.</p>	Links Exist

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Asset Commitment Risk

Summary

For pre-funded DVP settlements (RUB settlements), which settle on a T+0 cycle, the asset commitment period is a maximum of 3 hours for both buyers and sellers, while conventional DVP settlements have an asset commitment period of around 10 minutes, the duration of the settlement cycle.

For RUB FOP settlements, sellers may suffer relatively high asset commitment risk because cash moves independently of securities settlement. FOP transactions between non-residents settle in USD offshore, further adding to the asset commitment period.

Processing Cycles

The settlement processes vary according to the market where securities are traded and the type of settlement. The settlement cycle is also variable and can range between T+0 and T+30, with USD DVP settlements normally on a T+4 cycle while other settlements that are not pre-funded settling mainly on T+5 or shorter.

DCC settles equities and bonds traded on the RTS classic market (operated by the Not-for-profit RTS Stock Exchange – NP RTS Stock Exchange), RTS T+0 market (operated by the Open Joint Stock Company RTS Stock Exchange – ZAO RTS Stock Exchange) and OTC.

DCC settles transactions from a number of organised markets:

- RTS Classic,
- RTS T+0 market
- St Petersburg Stock Exchange (SPBEX - using the RTS system),
- MICEX (using DCC's trading subaccount at NDC) and

1. RTS Classic Market:

The RTS Classic market includes the anonymous and non-anonymous segments and trade both USD and RUB-denominated securities. The standard settlement cycle for the anonymous market is T+4 while the non-anonymous market (also known as negotiated) can have a settlement cycle between T+0 and T+30.

Anonymous Market

The anonymous or order-driven market segment includes securities denominated in USD only and settlement occurs on a DVP basis. In the anonymous segment, transactions do not need to be pre-funded prior to trading. The trading session operates between 9.30am and 6.45pm.

In the morning of SD, DCC receives the balances in the cash accounts of the participants from the settlement banks (JP Morgan, Citibank and RTS Settlement Chamber) and checks securities accounts.

Following receipt of instructions from both buyer and seller, DCC proceeds to match the instructions using the defined matching criteria which consist of about 14 criteria. DCC then checks that there are sufficient securities in the seller's account and sufficient funds in the buyer's account before settlement takes place. Settlement for securities is on a gross basis. On the cash side, there is some netting although it is not on a multilateral basis and the efficiency is quite low. As a result, the majority of trades settle on a gross basis. Once, DCC confirms that there are sufficient securities and cash available for settlement, it then transfers securities and cash in 5 intra-day batches:

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- 9.00am on SD
- 10.30am on SD
- 12.30pm on SD
- 3.00pm on SD
- 5.00pm on SD.

Even though cash accounts are held at the settlements banks, DCC holds a power of attorney to control these accounts. Participants do not have access to these accounts and any withdrawals must be approved by DCC. As a result, the DVP process is on a near simultaneous basis.

Non Anonymous Market

The non-anonymous or quote-driven market segment includes securities denominated in USD and RUB and settlement can occur either on an FOP or DVP basis. Transactions do not need to be pre-funded prior to trading. The trading session is run between 10.30am and 6.45pm.

The DVP settlement of non-anonymous trades is similar to the DVP settlement of anonymous trades where DCC controls the transfer of securities and cash. The DVP settlement of RUB-denominated securities takes place via securities accounts at DCC and cash accounts at the RTS Settlement Chamber. However, the DVP is controlled by the NP RTS Stock Exchange which acts as a clearing agent for these transactions.

Matching is performed by the NP RTS Stock Exchange and includes between 10 and 14 criteria. Settlement usually occurs on a T+4 cycle but participants can also agree on a different settlement cycle up to T+30. If no settlement cycle is included in the participants' instructions (both buyers and sellers must leave the space empty in the matching instruction field), then settlement takes place as soon as funds and securities are available for settlement.

Settlement takes place on a gross basis. There are three intra-day batches for the settlement of RUB securities:

- 1.00pm on SD
- 4.00pm on SD
- 7.00pm on SD.

2. RTS T+0 Market

The RTS T+0 market is a pre-funded market where securities and funds have to be in place before trading takes place at the RTS Stock Exchange. Trading on the RTS T+0 market takes place in RUB. Settlement is on a DVP Model 1 basis. Trading takes place between 10.15am and 7.00pm.

At 10.00am securities are transferred to the trading subaccounts managed by the RTS Clearing Centre which checks availability of securities and cash prior to trading. Participants can add securities and cash in real-time in the trading subaccounts and can withdraw securities throughout the day, although, prior approval from the RTS Clearing Centre is necessary.

There are three intra-day batches for the settlement of T+0 trades:

- 1.00pm on SD
- 4.00pm on SD
- 7.00pm on SD

Since securities and cash must be in place prior to trading, settlement will occur in the relevant batch depending on the time of the trade. At the beginning of the batch, the RTS Clearing Centre sends instructions to DCC regarding the securities to be transferred from the seller's to the buyer's account and at the same time, it sends a cash transfer instruction to the RTS Settlement Chamber to transfer funds from the buyer's to the seller's account.

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Finality takes place simultaneously when the last of the two transfers is completed. The batches may take up to 40 minutes, but this is because settlement of Gazprom shares, which takes place via DCC's account at Gazprombank, requires additional time. The reason for this is that accounts in Gazprombank are at the beneficial owner level and the RTS Clearing Centre needs to match about 40,000 accounts in order to settle these shares. However, this process does not delay settlement of the RTS T+0 market which takes about 10 minutes to clear and settle.

3. FOP Settlements

Classic market trades and OTC transactions are available for settlement on an FOP basis. The settlement cycle of FOP trades can be between T+0 and T+30.

For matching, DCC must receive instructions from both the deliverer and the receiver of securities. The instruction includes between 10 and 14 fields which are matched by DCC's system. Settlements can be unilaterally cancelled prior to matching when only one counterparty has entered instructions, but must be bilaterally cancelled after matching occurs.

Following matching, DCC checks the availability of securities to be transferred to the receiver's account. If there are insufficient securities, then settlement is rolled to the next batch. FOP settlements take place in 5 intra-day batches, as follows:

- 8.30am on SD
- 12.00pm on SD
- 2.00pm on SD
- 4.00pm on SD
- 6.00pm on SD.

4. Settlement of St Petersburg Exchange (Gazprom shares) and MICEX trades

For the settlement of Gazprom shares traded at the St Petersburg Stock Exchange and securities traded at MICEX, DCC has an account at the Gazprombank Depository and NDC, which are the settlement depositories of the two exchanges, respectively. Trading takes place at the relevant exchange and the transaction is reflected in DCC's records.

Cash

For DVP RUB-denominated trades, cash settlement takes place via the RTS Settlement Chamber (a non-banking credit institution). Cash settlement mainly takes place on a gross basis. The RTS Settlement Chamber has a link with the Central Bank of Russia for RUB Settlements - the CBR does not operate an RTGS system. Cash settlement takes place during the three intra-day batches operated for DVP transactions.

The RTS Settlement Chamber operates around 450 accounts, which usually includes one account for credit organisations (comprising of proprietary and clients' assets) and two separate accounts for brokerage houses (one for proprietary cash and another for clients' cash assets), although participants are able to open as many accounts as they request.

For USD-denominated transactions, cash settlement is via three settlement banks: JP Morgan, Citibank and the RTS Settlement Chamber, over which DCC has the authority to debit and credit cash amounts, in accordance with the instructions of the account owner. The RTS Settlement Chamber, in turn, uses JP Morgan and Citibank as its corresponding banks for USD Settlements. There is some form of netting by DCC but the netting efficiency is low. Settlement is executed during five intra-day batches. DCC interacts with each settlement bank via SWIFT.

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Asset Commitment Periods

The asset commitment period varies depending on the method of settlement, as follows:

- (i) For FOP settlements (some OTC and RTS Classic market trades) the asset commitment period is indeterminate since payment is arranged between the participants, independently of DCC.
- (ii) For pre-funded DVP settlements (RTS T+0 market), which settle on a T+0 cycle, the maximum asset commitment period is three hours. Since securities and cash have to be pre-funded prior to trading, the transaction will settle in the next batch after trading.
- (iii) For conventional DVP settlement the asset commitment exposure for buyers and sellers runs from when the securities and cash are blocked until the settlement is confirmed by the RTS Clearing Centre. This is likely to be for a minimum of 10 minutes, although this ignores the time during which cash is effectively frozen in the overseas accounts.

Irrevocability

Final and irrevocable settlement of securities is upon the transfer of the securities within the records of DCC. The insolvency of a participant cannot be declared retrospectively in Russia (i.e., the 'zero-hour' rule does not apply).

Finality

Settlement becomes final at the time of settlement if securities are held in DCC's nominee name or at registration if not held in the participant's name at the registrar.

Asset Commitment Risk - Key Indicators

Irrevocable commitment to the processing cycle

	Transaction Type	Start	Finish
Securities	FOP	Multiple Batches on SD	Multiple batches on SD
	DVP T+0	Time of trade	Completion of batch
	DVP Classic	Beginning of batch	Completion of batch
	DVP USD	Beginning of batch	Completion of batch
Cash	FOP	Unknown	Unknown
	DVP T+0	Time of trade	Completion of batch
	DVP Classic	Beginning of batch	Completion of batch
	DVP USD	Beginning of batch	Completion of batch

Comments (i.e., on pre-funding and irrevocability)

For DVP settlements, securities held in DCC's nominee name are blocked pending the transfer of the cash consideration. Once transferred the securities settlement is irrevocable.

Securities processing cycle outlined

Multiple intra-day batch processing. For USD settlement DCC matches transactions, verifies securities positions and blocks them. Once payment has been confirmed, DCC transfers the securities and effects settlement. For RUB DVP settlements, the RTS Clearing Centre checks availability of securities and instructs both DCC and the RTS Settlement Chamber to transfer securities and cash respectively.

Cash processing cycle outlined

DCC is only involved in cash movements for DVP settlement in USD when cash moves across accounts with the settlement banks, operated by DCC in accordance with the account owners' instructions. Once the availability of adequate cash has been confirmed, securities settle at DCC.



Liquidity Risk

Summary

For DVP settlements in USD, the positive benefit of netting is offset by an absence of credit and stock lending facilities. For FOP settlements liquidity risk is high due to the gross settlement method used. For sellers of securities not registered in DCC's nominee name the liquidity risk is even higher due to a lengthy and expensive re-registration process that has to occur prior to settlement.

Processing Model

The liquidity risk depends upon the type of settlement which varies by market. FOP, RTS T+0 market and some OTC transactions in RUB settle on a trade-for-trade basis (securities and cash) while DVP RTS Classic in USD, OTC transactions in USD and pre funded DVP transactions (for other markets) settle gross (securities) and net (cash). Despite some form of cash netting provided by the RTS Clearing Centre for USD settlements, it is not on a multilateral basis with very low efficiency levels. The large majority of trades settle gross implying higher liquidity demands.

Cash settlement is provided by the settlement banks in USD or RUB, both in same-day funds.

Pre funded DVP settlement extends the asset commitment period although this is minimised by the running of several intraday cycles. Also, it provides a fail-proof method of settlement which improves the liquidity risk.

FOP settlements involve trade-for-trade settlement of securities in DCC and gross settlement of cash outside of DCC. This generates high liquidity risk.

The major factor influencing liquidity risk is the registration status of the securities. Those securities registered in DCC's nominee name can be immediately placed in the settlement cycle (T+0 to T+n). The responsibility for re-registration rests with the seller and creates significant liquidity risk since the re-registration period can be up to 5 days.

Fails Management

No buy-in procedures are practiced in the market by the stock exchanges or DCC. The RTS T+0 market trades do not need any fails mechanisms since securities and cash have to be pre-funded prior to trading. For Classic Market trades, there is a fine of 15% interest for every calendar day in which settlement is delayed. The fine is paid to the counterparty.

Credit Facilities

No credit facilities are provided by DCC. Credit lines, if required, must be agreed by participants with their settlement banks.

Stock Lending

Securities lending is not well covered by the securities market legislation although it is practiced for equities in the form of repo transactions and only by brokers using their own securities. The Securities Market Law allows brokers to credit their clients with cash and/or securities for purchase and sale transactions provided that such credits are collateralised by clients. Accordingly, although there are no formal lending regulations and no formal arrangements in place, some SLB is practiced by some brokers DCC does not support SLB functionality.

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Registration Model

Legal title for securities is held at individual registrars or depositories (for bonds with centralised safekeeping of global certificates), reflected by an entry on the register or depository accounts.

Investors' holdings are either kept within a bulk nominee account of DCC held with each respective registrar or in the beneficial owners' accounts with registrars, or with other nominee accounts (primarily of custodian banks and other depositories) with registrars.

The type of registration arrangement has significant implications on the settlement arrangements. If securities are registered in the beneficial owner's name or a non-DCC nominee at the registrar, re-registration into DCC's nominee name must take place before settlement can occur at DCC. This can take between 3 and 5 days, during which time securities can be traded but not settled. For securities held within DCC's nominee name transfers take place by book entry on a near immediate basis.

Physical representation from the seller is required at the registrar to present transfer documents necessary for re-registration. DCC employs 30 agents (individuals) whose role is to provide a physical presence at registrars. DCC also maintains links (via EDI or fax) with most regional and the largest Moscow-based registrars to facilitate and speed-up the re-registration process.

In the uncommon case of a sale of securities that are registered in the name of the beneficial owner, or a non-DCC nominee, on application the registrar gives the seller, or their agents, an extract from the register which confirms the seller's holding. These extracts are presented to the buyers as evidence of a holding and are then used to accompany the subsequent re-registration request.

There are 78 licensed registrars throughout Russia. It should be noted though, that the trend in Russia has been to consolidate the smaller regional registrars into the larger Moscow-based registrars. The FFMS has imposed additional rules for registrars, which includes strict requirements for data back-up and recovery. This should improve the general registration process as well as automate it. It should also help reduce the number of registrars, as they might need to consolidate in order to create synergies and meet the new requirements.

Deposited securities

All securities deposited in DCC are held in registered dematerialised form, as stipulated under Federal Law.

DCC safekeeps equities traded at the RTS Stock Exchange as well as a few municipal and corporate bonds.

Deposit and Withdrawal of securities

In order to deposit securities into the DCC a re-registration order should be provided by an account holder with the respective registrar or depository (either beneficial owner or a trustee or a non-DCC nominee). The DCC participant should send in a matching deposit order to the DCC system which will be executed (securities credited to the respective account with DCC) once securities have been transferred to the DCC nominee account with the respective registrar or depository.

In the case of a withdrawal a participant should send in a respective order to the DCC system which confirms securities sufficiency in the account, locks them for withdrawal and then arranges for re-registration - either via electronic link with a registrar or the agent.

The withdrawal and re-registration process can take up to 1 week depending on the physical location of the registrar or the availability of electronic document interchange agreements with the registrar.

Securities cannot be settled while in the process of withdrawal.

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Liquidity Risk - Key Indicators

Settlement Models

DVP settlement is on:

RTS pre-funded trades: Model 1 basis; gross settlement of securities and cash.

DVP USD trades: Model 2 basis; gross settlement of securities and net settlement of cash.

FOP settlements do not follow any BIS Model.

Processing Periods

Overnight (by batch)	No
End of day	Yes
Batch daylight processing	Yes
Real-time and on-line	No
Other	No

Credit Facilities

Central bank money used to settle cash elements of trades	No
Credit facilities provided by the CSD	No
Credit facilities provided by commercial banks	Yes

Stock Lending (Note 1)

Is stock lending permitted in the market	Yes
Are stock lending facilities provided by the CSD?	No
Are stock lending facilities provided by commercial banks/brokers?	Yes

Transfer of Securities

Are securities deliveries achieved by book-entry?	Yes
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Registration of Securities

Period of time required to register a holding?

Within the DCC nominee immediate upon settlement.

Registration periods at company registrars vary between 3 and 5 days.

Comments

(1) Stock lending is practised on an informal basis although there is no legal basis for SLB and there are no regulations pertaining to SLB.

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Counterparty Risk

Summary

Counterparty risk exposure varies by market and type of settlement. Counterparty risk is low for pre-funded DVP settlements and conventional DVP settlements. For FOP settlements (50% by settlement value as a result of market choice) counterparty risk exposure is high. Risk minimisation measures such as guarantee funds, collateral postings and minimum capital requirements for participants are absent, although the DCC does monitor participant volumes.

Participant Counterparty Risk

For pre-funded DVP trades, settlement is assured by the requirement to have securities and cash in place prior to trading. For all other DVP settlements, the DVP arrangements protect participants against the risk of loss of principal, but there are no mechanisms to protect against consequential losses. FOP settlements expose participants to full counterparty risk and for DCC the decision by foreign market participants to settle FOP rather than DVP, which stems from their interpretation of the 17f-7 requirements, impacts adversely on the DCC rating.

Pre-funded DVP settlements for other exchanges (MICEX and St Petersburg Exchange) are reflected on DCC's records following the transaction which transfers securities through DCC's nominee account at the respective settlement depository.

For cash settlements in roubles via the RTS Settlement Chamber, participants are exposed to the RTS Settlement Chamber, which does not currently have a credit rating.

A default is classified as a failure by a participant to make payment or deliver securities at the specified time. Should this occur DCC would not settle the transaction but such deals would be included in the following settlement cycles until they are settled or until counterparties waive the trade. DCC at present does not cover failing trades but information on unsettled transactions is available to participants as part of a standard daily report.

Participants have been declared in default in the past, specifically during the 1998 financial crisis. At this time a number of stock market participants stopped operations and exited the market. Outstanding trades were settled through bilateral compensation agreements between participants.

Risk Containment Model

For pre-funded DVP trades, settlement is assured by the requirement to have securities and cash in place prior to trading. For all other DVP settlements, the DVP arrangements protect participants against the risk of loss of principal, but there are no mechanisms to protect against consequential losses. FOP settlements expose participants to full counterparty risk.

It should be noted that only professional participants can open custody accounts (beneficial owner, nominee holder and trustee) with DCC. Professional participants are legal entities that are granted a licence to perform a special activity (depository, brokerage and/or trust management) and who meet stringent financial and technical requirements.

Only professional participants are allowed to be direct participants within DCC.

Delivery Versus Payment

DCC controls the DVP process for USD settlements. The RTS Clearing Centre controls the DVP in RUB.

Role of Central Counterparty (CCP)

There is no central counterparty for securities in the Russian market.

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Participant Criteria

Eligible participants are all professional domestic participants of the securities market i.e., stock exchanges; banks and brokers. Foreign banks can only participate through a local subsidiary.

DCC employs a stringent admission policy involving credit analysis of potential participants. All participants are subject to the same rules and procedures and are covered by a standard participation agreement. There is an extensive Know-Your-Client questionnaire that provides information on the participant that is reviewed by various departments within DCC. However, no minimum capital requirements are set for participation. Banks must be licensed by the Central Bank, and brokers and custodians must be licensed by the Federal Financial Markets Service (FFMS).

A new law is to be issued which sets minimum capital requirements for newly registered banks at the rouble equivalent of EUR 5 million, starting 1 January 2007. According to the bill, the licenses of existing banks whose own capital amounts to less than EUR 5 million would not be revoked but they would not be allowed to reduce their own capital after 1 January 2007. The bill also applies to Russian-registered subsidiaries of foreign banks. The bill seeks to set the minimum capital requirement for newly-registered non-banking organizations at the rouble equivalent of EUR 500,000.

Participant Concentration

As of the end of 2005, DCC had 390 participants (all domestic), of which, 33.2% were banks, 47% brokers, 9.5% foreign-owned domestic entities and 10% others.

There is medium participant concentration in DCC. As of October 2006, the largest participant account for 11.31% of trades by volume, while the top 10% of participants accounted for 54.06% by volume and 59.37% by value.

Financial Compliance/Surveillance

While DCC does not monitor and manage the risk of a participant failing, it does actively monitor participant actions to ensure that they are in accordance with its rules and procedures. There is daily automated monitoring of participants' settlement performance and volumes. DCC imposes fines on participants for late book-entry settlement instruction presentation or failure to observe contractual obligations with DCC.

Guarantee Funds

RTS operates a small clearing guarantee fund for the settlement of anonymous trades on the RTS Classic market. The initial size of the fund was equivalent to USD 3 million and was formed with RTS's funds.

The fund can be used to cover the liabilities of the Clearing Centre to a given participant in cases where the deposited margin is not sufficient to pay the fines and penalties. (The limit of the RTS Clearing Centre liability to a participant will depend on the category of that participant.)

A settlement guarantee fund is planned for in the future.

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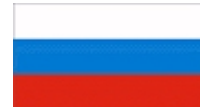


Counterparty Risk - Key Indicators

Capacity of CSD	Agent
Surveillance of participants by CSD	No
Settlement assurance	No
Participation criteria	Banks: 130 Brokers: 184 Foreign-owned institutions: 37 Other Entities: 39
Minimum Capital	Banks: None Brokers: None Other: None
Size of Guarantee Fund - (Name, local currency, Euro and USD - (millions))	N/A
Does the CSD act as a central counterparty?	No

Participant Concentration

Value of transactions in the market by top 10% of participants	59.37%
Volume of transactions by top 10% of participants	54.06%
Volume of largest individual participant	11.31%



Asset Servicing Risk

Summary

DCC, as a settlement depository, provides an extensive corporate action service to its clients. It attempts to provide complete and accurate information of events and process client's instructions speedily and accurately. However, the fragmented nature of registrars and the lack of any official source of information, makes this service difficult to provide. As a part of its services it provides a level of protection to its clients in the event that it is negligent, whereby it accepts liability for its errors or omissions where it has been at fault.

Information processing

DCC, as a custodian, provides its clients with details of corporate action events. For equities, issuers are legally required to notify registrars and registrars are legally obliged to notify their clients, including nominee holders (e.g. DCC) of all corporate action information. For all other securities, issuers are contractually required to notify DCC.

The large majority of corporate actions information is received by paper or fax from issuers and registrars. Only between 10% and 20% is received via EDI. Although DCC has the capability to receive corporate actions information in electronic form and is linked with the majority of registrars via EDI, this is not market practice in Russia.

There is no centralised official source of information in the market for equities, although DCC operates DCC-Info on its web site, which makes data available in both Russian and English. The information is sent to participants by direct electronic communication on the day of receipt or the day after at the latest, if received late.

Services such as corporate actions and information are provided to clients who have concluded a Depository Agreement, as follows:

- access to DCC Info System;
- complete information on registrars and securities re-registration
- information on issuers' securities and corporate actions;
- information on issuers and registrars.

All information is delivered electronically via email or EDI and is posted on the website.

DCC also provides reports including the Issuer Information Report; the Securities Information Report and the Bond Information Report for coupon payments on all issuers whose securities are held in their securities account to participants, if requested. The reports are provided in electronic format.

DCC takes liability for corporate actions information if accurately and timely received from the issuer or registrar.

Instruction processing

The proliferation of registrars in Russia is a significant problem when processing equity corporate actions. DCC maintains accounts with almost all registrars servicing more than 1,000 Russian issuers with more than 2,400 lines of securities. DCC is able to manage this through its nominee account holdings. Whenever possible, communication with registrars is electronic.

Corporate actions instructions are received mainly in electronic form (SWIFT 20%-25%, EDI 70%-75% and paper form is insignificant).

For dividend payments, DCC, as a nominee holder, has to compile the list of beneficial owners to be provided to the issuer, following a request from the registrar. According to local regulations, this process has to be completed within 7 days. For interest payments, it is not necessary to provide the list of beneficial owners to the issuer.

There is no central paying agent in the market. The issuer distributes interests and dividends directly or via a paying agent. For corporate actions processing, participants can select DCC as their paying agent and 90% of DCC's clients elect to route their dividend payments through DCC. Optional corporate actions, which require an instruction from participants, are always distributed via DCC. The most common optional corporate events include buy-backs and conversion of shares.

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Most corporate events do not require a response from the participant. However, for those that do, DCC does follow-up on the response with the participant after tracking whether instructions have been sent within the deadline.

There is no fixed Payment Date in Russia but rather a payment period. Some issuers split the CA payment in different tranches. If the issuer pays by stages, DCC has to contact the issuer to verify to which participants the funds have to be distributed to. Once payment is received from the issuer, DCC then distributes it to those participants who have appointed DCC as their paying agent.

Payments to participants are in electronic form via a bank transfer. DCC uses the RTS Settlement Chamber for the distribution of interest payments and ING Bank for dividend payments. Interest is normally distributed to participants on the day of receipt, while dividends are distributed the day after since ING's deadline at 1.00pm does not allow DCC sufficient time to match records for payments.

DCC accepts liability for direct and indirect losses caused to participants if the error is DCC's fault.

During 2005 DCC processed almost USD 416 million in interest and dividends.

Proxy Voting

With registrars scattered across the whole of Russia, proxy voting is essential. DCC provides an optional proxy voting service.

DCC will represent a client's interests at shareholder meetings held in Moscow or other parts of Russia. DCC requires a Power of Attorney and instructions on how to cast votes. Once this is received, DCC's representative will attend the meeting, as physical presence is required, and will vote in accordance with the participant's instructions. After the meeting, DCC will inform participants on the results of the meeting.

Currently, electronic voting is not permitted. For general meetings, nominee holders, including DCC, are also required to compile the list of beneficial owners for the issuer. Split voting is not permitted since only beneficial owners or their representatives are allowed to vote.

Other services

DCC assists sub-federal and corporate bond issuers with the distribution of IPOs and handles the redemption and interest payments for these issuers.

DCC provides a service to facilitate tax relief for investors from countries with a double taxation agreement with the Russian Federation. It also assists investors with a double taxation treaty with Russia to obtain tax relief. For this service, when DCC gathers the list of shareholders for the issuer prior to a dividend payment, they also include a certificate of tax residence for their clients. DCC also checks that the dividend payment was paid in accordance with the appropriate tax rate for that country. If there is a discrepancy between the payment and DCC's records, then DCC provides a legal service to resolve the situation.

This service has been offered due to the request by market participants.

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Asset Servicing Risk - Key Indicators

Information processing

Securities covered:	Eligible securities
Information sources used:	Issuers, registrars, RTS, data vendors
Information provided in English	Yes

Number of Events during last full year

Dividends	1,625
Interest & Redemptions	-
Corporate actions	353
Notification via:	Proprietary, SWIFT, Fax, etc
SWIFT message types	Yes
Notification within	Same day
Information processing comments	Corporate actions information is transmitted to participants on day of receipt or day of receipt + 1 if received later in the afternoon.

Instruction processing

Use of depository:	Market practice
Settlement on due date	Yes
Optional corporate actions supported	Yes
Cash account credited	No
Central paying agent	No
Entitlements based on:	-
Instruction processing comments:	Instructions received via SWIFT, EDI and fax.

Proxy voting services

On-line	No
Outsourced	No
Announcement of meetings	Yes
Elections (Voting)	Yes
Results reporting	Yes
Proxy voting services comments	Physical presence is required for proxy voting purposes.

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Financial Risk

Summary

DCC is a closed joint stock company governed by shareholders and majority owned by RTS (56.5%), which is used and owned by the broker community in Russia including major international financial institutions such as ABN Amro Bank, Credit Suisse First Boston, Deutsche Bank, ING Bank, JP Morgan Bank International, top Russian banks and broker/dealers.

NDC, the competing central securities depository in Russia, has accumulated 37.0% of DCC's shares and as a major shareholder it has five seats on the Board. However, the future shareholding of DCC is uncertain and could be subject to change, since DCC needs to increase capital under the new draft CSD law and this is likely to come from existing shareholders. Given the competition between the two vertical silos in Russia (MICEX/NDC and RTS/DCC) it is unlikely that RTS will allow NDC to acquire a majority holding.

Total capital and reserves as at 31 December 2005 exceeded USD 5.3 million.

Financial and other Resources

Capital Structure

Total equity for fiscal year 2005 amounts to USD 5.34 million. This comprises issued capital (18,400 shares) of USD 105,399, reserves of USD 1.79 million and retained earnings of USD 3.44 million. The size of the capital appears to be relatively small for the market.

The Russian Trading System (RTS) holds a 56.5% stake in ZAO DCC.

Recently NDC acquired stakes from Rosbank, the International Moscow Bank, Deutsche Bank LLC, ING Bank Eurasia ZAO and Sberbank, taking its holding in DCC to 36.95%. It will also seek to acquire additional shareholdings as they become available.

Other stakeholders are ZAO Capital Regent Securities, AOZT Navigator Capital and ZAO AKB Zerich Investment Bank each with a 2.17% stake in ZAO DCC.

NDC has also made an offer to RTS to settle its transactions, in direction competition with DCC. Any take up of such an offer could seriously weaken DCC and erode its value. There is also a contest underway for the trading in Gazprom shares now that they have been liberalised, with both MICEX and RTS competing on behalf of their silos.

Earnings Performance

DCC's revenue stream for fiscal year 2005 consisted of the following activities (with percentage contribution to income):

Depository revenue 86.5%
Agency re-registrations 12%
Corporate actions and information 1.5%
All DCC services are priced separately.

Major categories are:

Settlements and safekeeping.
Agency re-registration services.
Corporate actions and information.

Total operating revenue in 2005 totalled USD 8.16 million a 36% increase compared to the previous year (USD 6.004 million in 2004). The revenues of DCC, as a market infrastructure organisation, depend to a great extent on the overall situation in the Russian securities market. Analysis of statistical data over the past few years has demonstrated that the income from settlements and safekeeping (approximately 85% of DCC operating income) is directly correlated to changes in market activity, i.e. number and volume

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of trades, changes in the stock indices, etc as transaction fees represent approximately 75% of the settlement and safekeeping fees. However, to keep in line with the market conditions, DCC has the flexibility to raise or lower fees as required, although changes must be agreed with the major users and the FFMS. In 2005, a number of fee changes were made with the overall effect of reducing fees so as to retain a competitive pricing structure vis a vis NDC.

Operating expenses also increased in 2005 with the cost of services sold increasing by 27.4% to USD 2.054 million and general, administration and other operating expenses increasing by 13% to USD 3.659 million. Of this figure staff expenses represented USD 4.05 million and were up by 21.3% over the figure for 2004, while staff numbers had increased by only 5%. However, since the increase in revenue was greater than the increase in expenditure, the ratio of operating expenses to operating revenue fell from 80.8% in 2004 to 70% in 2005. This is a welcome trend after the ratio had stubbornly remained at around 90% in the preceding years of 2001 - 2003.

As at 31 December 2005, DCC made a profit before tax of USD 2.50 million, a significant increase compared to a net profit of USD 949,944 in 2004. This result continues the general trend of increasing profits of USD 539,152, USD 327,536 and USD 890,387 in 2001, 2002 and 2003 respectively. After taxation, the net profit for DCC in 2005 was USD 1.885 million.

DCC's revenues might be negatively impacted by the recent announcement that the Board of Directors of NDC approved official negotiations with the RTS Stock Exchange about providing depository settlement services to RTS by NDC.

Access to Credit

DCC does not have any arranged credit lines.

Insurance

DCC has a bankers blanket bond (BBB), electronic computer crimes and errors and omissions insurance from Ingosstrakh Insurance Company up to a total sum insured of USD 50 million on each and every loss, with the aggregate in any year of USD 50 million. There is a deductible of USD 250,000.

The policy insures DCC's assets related to any direct loss caused as a result of the following events:

- Wilful unlawful misconduct of the employees;
- Losses caused by physical loss/destruction or damages to the DCC's assets and property located in its offices, solely as a result of theft, attempted theft or wilful damage;
- Losses caused by the destruction of or damages to DCC's property while safekept by special armoured cars;
- Losses occurred due to the use of forged settlement instructions;
- Losses incurred due to transactions involving forged securities;
- Losses over transactions involving counterfeit (paper) currency;
- Losses suffered by DCC as a result of unauthorised access to its electronic computer network;
- Losses incurred as a result of unauthorised entry of instructions in its participants' electronic system;
- Losses incurred as a result of unauthorised access to DCC's electronic system;
- Losses incurred in connection with damage/deletion of electronic data and their information carriers;
- Losses caused by computer viruses;
- Losses incurred as a result of the receipt of forged/fraudulent altered electronic instructions;
- Losses caused by execution of electronic transfers effected on the basis of forged instructions from DCC;
- Losses connected with the loss of securities in electronic form as a result of the execution of forged instructions by DCC;
- Losses caused by the execution of money transfers effected on the basis of forged tested fax messages;
- losses caused by the execution of money transfers effected on the basis of forged telephone instructions.

The insurance covers the property interests of DCC, involving its liability to reimburse, in accordance with Russian laws, any property damage caused to third parties in performance of its activities.

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Potential Claims on Financial Resources

Credit Loss

In its role as settlement depository, DCC is entrusted with the safekeeping of client's assets, which are not included on its balance sheet. The maximum potential off-balance sheet financial risk born by the company at any point in time equals the value of client securities held off-balance sheet. The amount of assets in DCC custody as of 31 December 2005 was about USD 33.16 billion.

Liability for Operational Losses

Depository Liability

Russian Civil Law requires the reimbursement of all damage caused to third parties that result from errors, negligence or omissions of employees while undertaking their business activity. Damage includes direct losses and "lucrum cessans" or lost profits.

Thus DCC accepts liability for losses arising from negligence or wilful misconduct when carrying out the following operations:

- Correct and timely processing of participants' instructions.
- Correct and timely information on corporate actions.
- Safe keeping of assets.

DCC is liable for correct and timely processing of a participants' instructions but does not guarantee trade settlement.

To manage its liability, DCC has significant cash reserves (USD 9.08 mn as at 31 December 2005) in addition to a USD 10 million insurance policy (since updated to USD 50 million in November 2006).

DCC maintains a cash reserve fund of USD 400,000 for any operational losses.

Investment in Infrastructure

DCC has a project for the creation of a centralised system for securities safekeeping and transaction settlement which is ongoing. For this purpose DCC's management is pursuing an aggressive marketing policy promoting its services to major investors in Russian shares.

DCC is developing a new settlement and depository system (SDS), which involves a major upgrade of DCC's existing SDS system designed to enhance the reliability, security and scalability of the system and streamline the implementation of new technologies and services.

The contractor for this project is Vested Development Inc. (VDI), a provider of leading edge software development services since 1997. The new SDS is to be implemented in two stages. Stage 1 involves integrating the old and new systems and was completed in December 2006. The timing of Stage 2, which involves migrating to a new system, is likely to be impacted by the introduction of new functionality. Also the business specifications may need to be rechecked. The cost of phase 2 of the project is still to be finalised. Its financing is considered to be within the scope of the cash reserves held by DCC.

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Financial Risk - Key indicators

Ownership of the CSD

	Number - Domestic	Number - Foreign	Total Percentage
Central Bank	0	0	0
Stock Exchange	1	0	56.5%
Participant banks*	1	0	2.2%
Broker/dealers	2	0	4.3%
Mutual funds	0	0	0
Private clients	0	0	0
Others	0	0	0
NDC	1	0	37.0

Comments

The RTS is the exchange for which DCC provides settlement. It is owned by the broker/dealer community that uses DCC's services.

Statistics

	Capital structure (Local Currency)
Issued capital	105,399
Surplus	-
Reserves	1,790,243
Retained earnings	3,443,104
Total	5,338,746

Comments

In accordance with the legislation of the Russian Federation, reserves available for distribution, as at 31 December 2005, amount to USD 5,749,533 (2004: USD 3,716,226).

Figures in USD as of 31 December 2005.

Financial accounts are prepared according to international standards.

Lines of stock

	2001	2002	2003	2004	2005
Lines of stock	1,597	2,414	2,022	2,148	2,824
% Stock Exchange transactions cleared and settled through the CSD	100*	100*	100*	100*	100*
Total value of securities under custody	4.0	5.4	10.2	14.96	33.16

Comments

* For those Stock Exchanges where DCC acts as the authorised depository.

Value of assets under custody in USD billions.

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Equities

	2001	2002	2003	2004	2005
Market Value (local currency (millions))	N/A	N/A	N/A	N/A	31.8
% of issued securities in the CSD	N/A	N/A	N/A	N/A	N/A
% of market capitalisation in the CSD	N/A	N/A	N/A	N/A	N/A

Comments

2005 figure is in USD billions.

Fixed Income

	2001	2002	2003	2004	2005
Market Value (local currency (millions))	N/A	N/A	N/A	N/A	1.4
% of issued securities in the CSD	N/A	N/A	N/A	N/A	N/A
% of market capitalisation in the CSD	N/A	N/A	N/A	N/A	N/A

Comments

2005 figure is in USD billions.

Money Markets

	2001	2002	2003	2004	2005
Market Value (local currency (millions))	N/A	N/A	N/A	N/A	N/A
% of issued securities in the CSD	N/A	N/A	N/A	N/A	N/A
% of market capitalisation in the CSD	N/A	N/A	N/A	N/A	N/A

Expenses

	2001	2002	2003	2004	2005
Expenses as % total operating revenue	89.8%	91.4%	88.2%	80.8%	70%

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Operational Risk

Summary

Sound operational controls appear to be in place and they are performed in accordance with established procedures and regulations. Although DCC has been active in promoting automation of procedures at registrars, the market remains heavily reliant on paper forms. The majority of corporate actions information from registrars comes in paper form, although settlement instructions are more automated as they are received mainly via EDI (their proprietary system) and SWIFT. The links with other market institutions is either via SWIFT (RTS Settlement Chamber, JP Morgan and Citibank) or their proprietary system (RTS Stock Exchange and RTS Clearing Centre).

There is an independent internal audit function performing audits on all key operational processes, but excludes IT activities. When new services are launched, operational risks are identified by the risk management department, which indicates the monitoring and mitigation instruments. However, internal audits are completed on a periodic basis according to an Internal Audit plan, but there is no complete annual internal audit conducted on all operational procedures and controls. In addition, the department seems understaffed since there are only two people involved for an organisation of around 160 employees. External audits are not periodically performed, but PWC executed a SAS-70 report in 2001.

DCC has a formal disaster recovery plan which is tested annually, although participants have never been involved in the testing. The last test was performed in April 2006 and the next one is planned for April 2007.

Depository controls

Access to premises

DCC does not hold any physical securities and has no vaults. Vault agents are used for any long-term storage of physical property.

DCC conducts daily securities balance reconciliations with registrars and custodians for all recently traded securities.

DCC employs a wide range of anti-forgery and security measures. Security measures include the restriction of physical access to the premises (all operational floors have electronic locks with selective access) and activity control procedures. The operational floor is not accessible to external parties. Employees have to handle the keys to the security staff before leaving the building.

For visitors, DCC has to send a request to reception to inform about their names and visitors have to provide their passport and be accompanied by a DCC employee at all times.

Operational audits

PriceWaterhouseCoopers executed a full SAS-70 report in 2001. The report provided an independent assessment that the established controls were applied effectively. The review of the internal control procedures included interviews with the management and operational staff, analysis of corresponding documents, regulations and statements, as well as observation of the employees' actions and the way they performed transactions. The SAS-70 report stated that the internal control provisions and procedures have been properly developed and comply with the internal control objectives stated in the description, providing these provisions and procedures are adequately met. An IT audit of the new system was executed in 2006 by CMA Small Systems AB. The report states that DCC's settlement system is appropriate to support the current activities and the database model functionality meets the current objectives and is capable of supporting DCC's existing activities.

DCC also has an internal control department which is responsible for monitoring the compliance with the established rules and procedures, as well as the efficiency and reliability of transactions. Currently, there is one employee in the department and reports directly to the Board of Directors and provides quarterly reports. The Department's responsibilities include:

- exercising control to ensure that all units and staff comply fully with existing legislation, normative acts and internal documents;
- monitoring internal compliance with the rules and procedures for document flow;

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- monitoring the efficiency and reliability of transactions, which are performed by DCC in the course of its business activities;
- exercising control to ensure the proper recording of transactions and preparation of reports;
- monitoring the correction of identified violations and errors made in the normal course of the company's business activities;
- preparing reports for submission to regulatory bodies in accordance with the requirements of current Russian legislation;
- reviewing complaints, requests and claims made to DCC by market participants and regulatory bodies;
- interacting with regulatory and supervisory bodies on issues that come under the department's authority.

The internal controller also performs regular reviews of DCC's divisions and branches. Such reviews are performed on a regular basis so as to ensure compliance with the relevant legislation, regulations and internal policies based on the following:

- current control plan, developed by the head of the internal control department and agreed upon with division heads, the management and the Board of Directors;
- participants' claims concerning the activities of DCC and/or its employees;
- detection of errors, discrepancies in control figures, etc. and;
- requests submitted by the management or individual division heads.

DCC has established a diversified internal control and risk management system, which includes the External and Internal Risk Management Committees, a Risk Manager, the Internal Control Department, the Compliance Department, the Legal Department, the Legal Control Committee, as well as a number of procedures for decision making, monitoring, reporting and control. The functions of the units and committees that comprise the Internal Control and Risk Management System are regulated by internal policies, which detail the targets, functions, rights, obligations and responsibilities of all structural units that make up the system.

The Internal Committee is a collective body that organises co-operation between the different departments within the framework of the risk management system. It includes the heads of the DCC's main structural units. The External Committee is a collective supervisory body, which acts in the interests of the Company's shareholders, and also includes representatives of custodian banks and leading investment companies that are clients of the Company.

Reconciliations

Regular reconciliations are conducted to ensure that the amount of securities recorded in DCC's books matches the participants' records. In particular, these include:

- reconciliation of each transaction in DCC's records as a nominee holder for a given reconciliation period;
- reconciliation of total balances in the DCC's records accounts as of the reconciliation date.

Reconciliation of each transaction in DCC's accounts for a given reconciliation period are conducted by means of a comparison of transactions recorded in the movement in the account of DCC at the registrar, as submitted by the registrar, with the corresponding records on customer accounts for individual securities.

Reconciliation of total balances in the DCC's accounts in the registrar is conducted by means of a comparison of data included in the Statement of Accounts of DCC as submitted by the registrar as of the reconciliation date, with total balances in participants' accounts for individual securities.

For the most actively traded equities, DCC performs daily reconciliations for each transaction and a reconciliation of the total balances. In relation to the shares of second-tier issuers, DCC performs a reconciliation for each transaction and a reconciliation of balances on a regular basis (at least twice per month), depending on the volume of transactions with these securities.

The reliability of DCC's securities custody services is also enhanced by means of the maintenance and regular updating of the database on all securities held in custody. The availability of up-to-date information on state registration codes, share issue prospectuses and reports on the results of share issue placements enables the Company to avoid potential conflicts related to the nullification of share issues.

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The efficiency of reconciliations performed by DCC and the timely co-ordination with registrars in carrying out transactions in DCC's nominee accounts have been ensured by the use of EDI in the communication with most registrars.

Staff training

Employees are selected on a competitive basis. In respect to key positions, there are certain required qualifications, which are taken into consideration when recruiting and selecting personnel. Personnel search and selection is carried out both through internal resources and specialised recruitment agencies. The President determines the personnel selection procedure, which is as follows: either a personal interview with the relevant division heads, or an interview conducted by a search committee. Should the results of such interviews be affirmative, the Internal Security Department conducts mandatory background checks on the selected candidates.

After selecting a candidate according to the established procedure and completing the hiring process, the head of the department refers the candidate to an HR specialist, who monitors the accurate completion of all hiring documents. Following an orientation briefing, a newly-hired employee signs a binding confidentiality agreement. Each employee is provided with a job description that defines the extent of the given job's requirements, obligations, rights, subordination system and responsibilities.

All newly-hired employees must undergo a three-month probation period. If a new employee receives no critical remarks during the probation period with respect to the performance of his/her job responsibilities, a commission meeting is conducted by correspondence and, on the basis of the minutes of said meeting, an employee is deemed to have successfully passed the probation period and continues to work on a general basis. If such a meeting produces a negative result, the given employee is discharged from employment at the end of his/her probation period. In such cases, on the basis of the minutes of the commission meeting, an HR specialist issues an order for the employee's dismissal due to his/her failure to demonstrate satisfactory job performance during the probation period (Article 23 of the RF Labour Code).

DCC is committed to the ongoing enhancement of employee skills. Therefore, in the budget planning process, the costs of external training are incorporated into the budget of the Company and its structural units. The selection of specific training courses and of those staff members to undergo training is the responsibility of the direct managers of said employees. In general, employees are usually sent to short-term courses and seminars, including those held on site in the Company's offices. In addition, the Company conducts internal training, in which experienced employees train newly-hired staff, and IT specialists conduct employee seminars on specific aspects of working with the Company's computer systems.

The activities of employees are regularly assessed using a 360 degrees assessment process, on the basis of the adequacy of their skills to the job requirements, their involvement in performing the functional tasks of their respective department or division, the level of difficulty of work performed, and its level of efficiency. It is also necessary to consider the given employee's professional skills, work record, possession of relevant regulator's certificates, and the employee's readiness to enhance his/her skills and improve his/her job performance.

Clearing controls

Currently DCC clears USD DVP transactions for which it possesses a licence for clearing activities.

For USD clearing activities, DCC operates links with the settlement banks (i.e. RTS Settlement Chamber, JP Morgan and Citibank) via SWIFT and has a power of attorney to control the cash accounts. DCC also has a link with the RTS Stock Exchange which is via the EDI system.

Data processing controls

Receipt of instructions

DCC receives instructions in various ways including EDI, SWIFT and paper (not that significant but there is still a legal requirement to be able to receive via paper).

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Most participants send their instructions via the Edi (Electronic Document Interface) using a remote workstation. This system is based on Verba-O software, which has been certified by the Federal Agency for Government Communications and Information (FAPSI) for use in protecting data through encryption and electronic/digital signatures. Input and input control functions are the responsibility of participants.

Some participants submit instructions via SWIFT. These are not automatically input into the information system but are printed out and inputted in a similar manner as client orders submitted in hard copy form. SWIFT is used for exchanging data with the settlement banks when executing DVP settlements. Physical and electronic access to SWIFT transactions, as well as access to data files, is limited to authorised DCC staff only.

A small percentage of participants send their instructions via fax or paper. When accepting the instructions, authorised staff review the level of compliance of the documents received with the existing legislation and internal regulations. In addition, a criminologist (graphologist) conducts an authenticity check of documents, company seals, signatures, and the power of attorney of a participant's representative. If the check is passed, the authorised employee signs the document and affixes a seal with the date and time of acceptance and then returns the second copy of the order to the originator. The instruction is then entered in the information system by two staff members in succession. Non-acceptance is finalised in the form of an official answer to the client.

Network security

The main and back up sites are connected to the Internet, which is used as a transport for communication with participants and registrars using EDI. Both sites are protected from Internet by firewalls built using CISCO 2800 hardware. Sites are connected to each other by fibre TDI connection that is also behind the firewalls protecting the sites. There is a project to migrate the TDI connection to VPN Ethernet connection.

Different ISPs are used to provide Internet connection for both sites and in the event that one ISP is unavailable, the connection has to be reconfigured manually which may take up to 30 minutes.

Access control level (ACL)

The Single Windows 2000 domain is used. The domain is divided into two sites which correspond to the main and backup operational sites. Two Windows 2000 Domain Controllers exist in each site. Replication of ACL and Domain policy is performed via TDI connection between the main and backup sites.

Participants have different set of access permissions according to ACL stored in Active Directory of Windows 2000 domain and NTFS file system permissions. Every user has individual login/password. Domain policy includes password policy (passwords strength and validity period).

Email and Internet security

Exchange 2000 Server is used as email system protected by virus and spam filtering system. Employees do not have direct Internet access (web or any email except corporate Exchange server) except for Client services and PR departments. User workstations are also protected by Kaspersky antivirus software. Typical configuration of user workstations does not anticipate having CD/DVD drive although it does anticipate having FDD (floppy disk drive).

Disaster Recovery/Business Continuity Procedures

A business recovery plan is in place which is reviewed and updated regularly. DCC has a duplicate computer system in the building to handle any in-house system failure. An uninterruptible power supply/tandem generator handles power supply failures. Off-site back-up and operational facilities would be used in case of any major disaster that could make the DCC building unusable. In the event of a disaster interrupting processing capability, immediate system recovery is planned.

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The off-site back up data storage is where back up files are stored and locked. In the event of the main system failure, it would take DCC between 4 hours and 8 hours (if the disaster occurs over night) to activate the back up system. The main and backup data processing sites are connected via a dedicated fibre line. Apart from the Active Directory replication (which includes replication of security settings such as user details, passwords, ACL permissions, etc) which is transmitted electronically, back up information has to be physically carried to the backup site (which takes up to 1 hour according to disaster recovery plan). The size of the back-ups is quite large and the current network connection does not permit the electronic transfer of these files.

The back-up system features a number of levels:

- hourly back-up copies of main database changes;
- daily back-up copies of all databases and working files on magnetic tapes, which are stored for one week;
- weekly back-up copies of all databases and working files on magnetic tapes, which are transferred to a storage depot (10 minutes drive from DCC).

Different employees go twice a year to the DRP site to get familiar with the site. A full test is executed every year which a full simulation of the DRP site. The servers are restored using the last working day's data. The last test was executed in April 2006 and the next test is planned for April 2007. There has never been a test in a live environment. EDI instructions are simulated, but participants are not involved in the testing. The disaster recovery plan has not been activated within the past three years.

SWIFT ISO 15022 communication is used as a backup to the proprietary system communication network. DCC would announce by email and telephone any system interruptions to participants.

The back up site is located around 20 kms from DCC's main offices and is only accessible to selected DCC's employees. It has 10 work stations with designated equipment for each area. It also has 3 servers and a separate area for the database administrator. 30 employees could use the equipment daily by having three different shifts of 8 hours. DCC estimates that they could continue running operations from the back up centre for over a month if necessary. They have not tested the business continuity plan.

Depository Liability

DCC accepts liability for direct and indirect losses caused to participants due to its errors and omissions.

Systems Performance

System performance is a key issue in Russia mainly due to the considerable growth in the market in the last few years. Currently, the volume of transactions as a percentage of system capacity is 10% and can reach 50% in peak times. The capacity was increased during the system upgrade that took place in the second quarter of 2006.

The system has had full availability since 2002. No problems have been reported due to the good redundancy in the cluster technology. DCC's performance and capacity statistics are automatically compiled and analysed on a regular basis. Before the alternative processing site was launched, settlements got delayed on several occasions for a short period of time primarily due to power failures and consequential activation of back-up systems.

Operational Risk - Key indicators

Control objectives identified by the CSD match standard objectives	Yes
Key controls and procedures are identified by the CSD	Yes
Independent evidence exists that key controls and procedures have operated effectively through the last year	Yes
Material errors have been identified	No

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CSD on CSD Credit Risk

Summary

DCC has a link with Euroclear Bank and Clearstream Banking Luxembourg via VTB to provide cross-border settlement services. DCC opened an inter-depository account at the Central Securities Depository of Kazakhstan in September 2006.

Also DCC has a number of domestic links. DCC has a nominee account at the national Depository Centre (NDC) to settle DCC participants' trades executed on MICEX. It has an account at the Gazprombank depository (Settlement Depository Company) and Sberbank for the settlement of Gazprom shares traded on the St Petersburg Stock Exchange and Rosneft shares, respectively. It also has an account at Citibank.

CSD - CSD Links

Domestic Links:

DCC and NDC link through settlement accounts opened in each other's systems (i.e., they are a direct participant of each other). There is also a bridge between DCC and NDC which permits participant settlement through either depository in the similar manner as the Euroclear Bank and Clearstream Banking bridge. Brokers tend to keep their equities in DCC and transfer them to NDC across the bridge if they need to settle transactions executed on the Moscow Interbank Currency Exchange (MICEX) (as opposed to RTS). NDC is the depository and settlement system for transactions in equities and fixed income securities traded on MICEX and reference should also be made to the Thomas Murray assessment on that depository.

DCC settles securities transactions for NDC against a net credit limit and takes counterparty credit risk against securities being held by NDC up to this limit, on a rolling basis.

DCC also has accounts with the Settlement Depository Company (SDC) for the settlement of Gazprom shares and Sberbank for the settlement of Rosneft shares. It has an account with Citibank to facilitate transfers between Citibank custody clients and DCC participants.

Inter-depository settlements are conducted on an FOP basis, through modification of net securities obligations in each other's settlement accounts. Each depository has a net credit cap against the other, so credit risk is taken by DCC against NDC related transfers, up to this amount.

International links:

DCC has opened accounts with Euroclear and Clearstream through Vneshtorgbank (VTB). It also has a link with the Central Securities Depository of Kazakhstan.

Processing Cycles

DCC and NDC undertake the reconciliation and netting of securities balances on their correspondent accounts on a daily basis, at the end of each business day. When the net position in one of the depositories is in excess of the established credit cap, on the next business day the depository concerned gives the instruction to the other to transfer the excess amount of securities into its nominee name at the registrar of shareholders.

In any event at the end of each month the two depositories transfer the net balances in their respective nominee names into the other's nominee name at the registrar of the company.

During 2005, there were 23,689 settlements across the bridge with NDC. In August 2006 there were approx 90 securities eligible for bridge transactions.

The Depository Clearing Company (DCC) CSD RATINGS REPORT



CSD on CSD (Credit Risk) - Key indicators

International Links: List of international links established and/or planned by the CSD

Foreign - through Vneshtorgbank (VTB) DCC has opened accounts with Euroclear Bank and Clearstream Banking Luxembourg.
CIS countries - DCC has an account with the CSD of Kazakhstan.

Domestic:

- National Depository Centre (NDC)
- Gazprombank depository network
- Sberbank for Rosneft shares.
- Citibank for domestic securities.

The Depository Clearing Company (DCC)

CSD RATINGS REPORT



Governance and Regulation

Management and governance of the depository

DCC has a board of 12 directors who oversee and approve all aspects of the depository's day-to-day and strategic decisions. The Board of directors include representatives of DCC's shareholders including 7 members from the RTS Stock Exchange and 5 members from NDC. The Board of Directors is responsible for resolving general issues relating to depository and clearing services provided by DCC, including decisions on new services, deadlines and implementation procedures, as well as the technical development. The Board is responsible for approving basic documents, which regulate the procedures for executing transactions, establishing competence levels, and regulating the activities of the different departments, as well as internal document flow procedures and internal regulatory documents concerning accounting and reporting procedures.

The Board of Directors receives reports on the results of reviews of DCC's activities, which are prepared by the internal control department.

According to the Company Charter, the President, who is elected by the General Shareholders' Meeting, is the highest single executive official engaged in the day-to-day management of the Company's current activities.

DCC also has a Major Participants committee which is responsible for discussing the main issues such the fee structure, service changes, new products, etc. However, any decisions reached by this committee must then be approved by the Board of Directors. The Committee of Major Participants consists of 11 members elected for a one-year term by the Board of Directors: 10 representatives of 20 major clients of DCC and 1 representative of the Company.

DCC has a number of other internal and external committees. The external committees, which comprise of representatives of major participants and internal DCC representatives, include amongst others:

- Settlement committee: Discussions regarding existing settlement procedures and potential changes.
- Risk committee: Changes in risk management policies and impacts of new developments on the risk profile of DCC.
- Legal committee: Legal issues
- Budget committee: fee policy, expenses, etc.

Regulatory and independent examination of the depository

The Federal Financial Markets Service (FFMS) regulates DCC. It has the power to approve new services from DCC and conducts operational audits as specified above. The FFMS has the right to impose fines on DCC, and restrict, suspend or terminate its activities/licence. No enforcement actions have been taken by a regulator on DCC in the past three years.

DCC reports to FFMS and is a member of the self-regulatory organisation PARTAD (Professional Association for Registrars, Transfer-Agents and Depositories). DCC follows the rules of PARTAD. DCC is required to submit monthly reporting documents and copies of quarterly financial statements to the FFMS.

Annual financial audits have been performed since 1996 by an internationally recognised company, currently KPMG, according to both Russian and international accounting standards. Internal auditors provide reports on a quarterly basis which are then presented to the FFMS.

There are no regular operational audits by external parties performed although a full SAS-70 report was executed by PWC in 2001. The FFMS executes periodic reviews on DCC's operational controls and DCC's internal controller carries out full monthly operational audits, with daily and weekly monitoring of critical functions.

The Depository Clearing Company (DCC)

CSD RATINGS REPORT



Internal controls and procedures for safeguarding investments

The DCC has two risk management committees in place, an internal committee for day-to-day issues and an external committee for strategic decisions.

Each account opening application is reviewed by the internal risk management committee.

Other legal protection mechanisms

DCC insurance provides coverage up to the limits of the policy for the replacement of lost securities. DCC is required, pursuant to Russian legislation and its agreements with clients, to return all deposited securities to respective depositing clients, upon their request.

Segregation by participants of proprietary and client held assets is compulsory by regulatory requirement. Participants must open accounts for (i) own securities, (ii) securities held for others (omnibus or segregated, nominee), and (iii) securities in trust. Participants can operate their accounts either directly or by appointing an agent who is a DCC participant, thus a participant can operate a multiplicity of accounts.

Nominee accounts can be opened by participants with Russian depository (custodian) licences only. The nominee concept is recognised in Federal Law. Trustee accounts can be opened by participants with Russian licences for trust activity only. Sub-accounts are used for specific types of operations (e.g., Stock Exchange trading, pledge of securities, etc.). DCC does not have legal relations with participants' clients and therefore cannot solely identify assets held in an omnibus/nominee account for a particular beneficial owner.

Participants' assets are protected from bankruptcy of the DCC under Federal Law.

The Depository Clearing Company (DCC)

CSD RATINGS REPORT



About the Depository

Name and Address	Depository Clearing Company (DCC) 31 Shabolovka Street Moscow 115162 Russia St. Petersburg branch: 12/23 Sadovaya Street 191011 St. Petersburg Russia	
Website	www.dcc.ru/eng	
Date of establishment	1993	
Date commenced operations	1993	
Legal status	Not-for-profit limited company.	
Type of legal entity	Closed Joint Stock Company.	
Regulated by	Federal Financial Markets Service (FFMS).	
Is use of the CSD required?		
	Settlement	Safekeeping
By Law	No	No
By Market Practice	Yes	No
How securities are held		
	Dematerialised	
Domestic eligible participants	130 banks 184 brokers 37 foreign-owned local banks and 40 others.	
Foreign eligible participants	None. All participants require a local presence.	
Ownership	RTS Stock Exchange (56.5%) National Depository Centre (37%) Others (6.5%).	

Segregation of Assets at the Depository

Depository assets from participants	Yes
Participant assets from clients	Yes

Eligible Securities Depository under SEC Rule 17f-7

System of central handling of securities	Yes
Regulated by a financial regulatory authority	Yes
Holds assets of all participants on equivalent terms	Yes
Identifies and segregates participant assets	Yes
Periodic reports to participants	Yes
Periodic examination by a regulator or independent accountant	Yes

The Depository Clearing Company (DCC)

CSD RATINGS REPORT



Internal Safety Measures

Participant Eligibility Criteria

Minimum Capital Standards	No
Comments	A new law will apply from 1 January 2007 that sets minimum capital standards for banks and non-bank institutions.

Financial Aspects

Ability To Raise Capital/Borrow	Yes
Committed Lines Of Credit In Place	No
Publish Audit Financials	Yes
Take Lien On Stock Held	No*
Central Bank Guarantee	No
Other Third Party Guarantee	No
Third Party Insurance	Yes
Comments	*Not possible to have a lien on nominee accounts but could be done on a participant's own assets.

Safeguard Facilities

Offsite Back Up	Yes
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Disaster Recovery

Disaster Recovery Plan	Yes
Back-Up Power Generator	Yes
UPS (Uninterruptible power supply)	Yes

Services Provided

Matching

Pre-Matching Services	No
Matching Services	Yes

Clearing

Clearing Services	Yes
Comments	For USD DVP

Securities Settlement

Book-entry Settlement	Yes
Fails Management	No

Cash Settlement

Internal Cash Settlement	No
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Stock Lending

Securities lending for fails coverage	No
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Asset Servicing

Notifications	Yes
Securities processing	Yes
Paying agent	Yes
Central registrar	No
Proxy voting services	Yes

Communications

Electronic Communications	Yes
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Reporting Services

Electronic reporting	Yes
Reporting of every movement	Yes
Regular statement of securities deposited	Yes

The Depository Clearing Company (DCC)

CSD RATINGS REPORT



Definitions

Public Rating. This assessment has been compiled from information provided by third parties and the CSD and has been verified by Thomas Murray analysts during an on-site visit to the CSD. The report has been reviewed by the CSD. The ratings that have been assigned to the risks that are reviewed in the report have been determined by Thomas Murray analysts and approved by the Thomas Murray Rating Board. The ratings have been assigned in accordance with the process outlined in the published methodology as developed by Thomas Murray and on the basis of information confirmed by Thomas Murray analysts during a site visit to the CSD.

Publication Date

The publication date represented here is December 2006. This is the date that the assessment report has been reviewed by third parties including the CSD. The report is updated on an ongoing basis throughout the year as new information is received and should be read in conjunction with the relevant newflashes issued since the publication date.

RISK EXPOSURE DEFINITIONS

Asset Commitment Risk - The period of time from when control of securities or cash is given up until receipt of countervalue. This risk concerns the time period during which a participant's assets, either cash or stock, are frozen within the CSD and payment system pending final settlement of the underlying transaction(s). Following settlement, the risk period is extended until the transfer of funds and stock becomes irrevocable. It excludes any periods when assets, cash or stock, are committed to a market participant including brokers, banks and custodians, not caused by CSD processing.

Liquidity Risk - The risk that insufficient securities and/or funds are available to meet commitments; the obligation will be covered some time later. This is where for certain technical reasons (e.g., stock out on loan, stock in course of registration, turn round of recently deposited stock is not possible) one or both parties to the trade has a shortfall in the amount of funds (credit line) or unencumbered stock available to meet settlement obligations when due. These shortfalls may lead to settlement 'fails' but do not normally lead to a default.

Counterparty Risk - The risk that a counterparty (i.e., a participant) will not settle its obligations for full value at any time. This is simply the total default of a direct participant of the CSD. This is the event when a participant is unable to meet its financial liability to other participants. This risk only goes as far as direct participants of the CSD and excludes clients of direct participants that default on liabilities to such participants, even if such a default should systemically cause the direct participant to subsequently default.

Asset Servicing Risk - The risk that a participant may incur a loss arising from missed or inaccurate information provided by the depository, or from incorrectly executed instructions, in respect of corporate actions and proxy voting. This risk arises when a participant places reliance on the information a depository provides or when the participant instructs the depository to carry out an economic transaction on its behalf. If the depository fails either to provide the information or to carry out the instruction correctly then the participant may suffer a loss for which the depository may not accept liability. The depository may provide these services on a commercial basis, without statutory immunity, or it may provide the service as part of its statutory role, possibly with some level of protection from liability. This risk is likely to become much higher when international securities are included in the service.

Financial Risk - The ability of the CSD to operate as a financially viable company. This risk concerns the financial strength of the depository and if its financial resources are sufficient to meet the on-going operation of the organisation. This risk also includes where the CSD may act as central counterparty, or otherwise acts in a Principal capacity.

Operational Risk - The risk that deficiencies in information systems or internal controls, human errors or management failures will result in losses. The risk of loss due to breakdowns or weaknesses in internal controls and procedures. Internal factors to be considered in the assessment include ensuring the CSD has formalised procedures established for its main services. The CSD should have identified control objectives and related key controls to ensure operation and proper control of established procedures. Systems and procedures should be tested periodically. There should be external audit processes in place to provide third-party audit evidence of the adequacy of the controls.

CSD on CSD Credit Risk - The risk that a CSD is taking when linking to another CSD. The credit risk that a CSD is taking when linking to a peer group CSD i.e. the risks a domestic CSD is taking in either providing a service for a foreign CSD or using a foreign CSD as a local service provider (host CSD). The risks arising from using these links to make cross-border settlements or to hold securities in a non-domestic CSD have not been assessed as part of this risk.

RATING SCALE

AAA	Extremely low risk
AA+	Very low risk
AA	
AA-	
A+	Low risk
A	
A-	
BBB	Acceptable risk
BB	Less than acceptable risk
B	Quite high risk
CCC	High risk
N/R	No rating has been given due to insufficient information

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