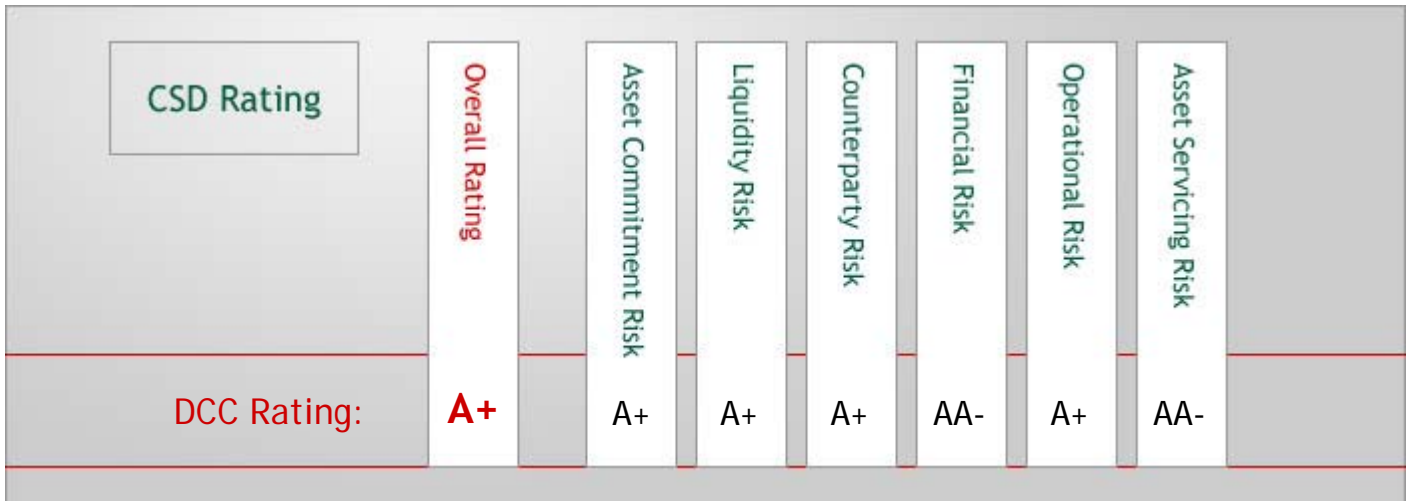




Public CSD Rating Report Depository Clearing Company

Publication Date: December 2009

Thomas Murray CSD Public Rating for: **Depository Clearing Company is A+**



The outlook for the rating is: **Stable**

Overall Risk Summary

Thomas Murray has maintained the Depository Clearing Company's (DCC) overall rating as A+, which means low risk. The outlook is stable. The rating is a weighted average of six distinct risk components comprised of Asset Commitment Risk, Liquidity Risk, Counterparty Risk, Asset Servicing Risk and Financial Risk.

The overall rating of 'A+' reflects the significant effort made by DCC during the past year in minimising risk. As a result, three of the six risk components have been upgraded. Liquidity Risk and Counterparty Risk have been upgraded from 'A' to 'A+' and Financial Risk has been upgraded from 'A+' to 'AA-'.

The key contributing developments to the rating upgrades have been as follows:

DCC has developed an Enhanced Speedy Settlement Scheme (ESSS) with Citibank, ING and Deutschebank and further expansion of the scheme is planned. The ESSS arrangement involves DCC establishing security sub-accounts with custodians, to support near immediate direct transfer of securities between DCC and custodian clients on register. The success of the scheme is demonstrated by the reduced volume of transfers via the registers which as a consequence makes FOP transfers less dependent on the registrars and significantly reduces the time and cost of transfer for securities. Nevertheless it is seen as a temporary arrangement that provides a more efficient method of transferring securities for US overseas investors pending their acceptance of the safer and more effective DVP transfer arrangements.

USD and RUB settlement of the RTS classic market for quote driven and non-anonymous trades, and off-exchange OTC transactions has been rationalised through DCC's DVP net cash settlement multiple batch process. In comparison to FOP settlement, the DCC DVP and RTS CCP DVP settlement arrangements offer higher settlement efficiency and a lower cost and simpler settlement process and also reduce liquidity and counterparty risk. Furthermore, DCC DVP and RTS CCP DVP usage has been increasing.

DCC has continued to provide strong financial management during a period of difficult global financial conditions, maintaining a net profit similar to that achieved in the previous year and increasing its capital through retained earnings. The system redevelopment project, DEPO/X is nearing an end and there are no other planned investment commitments that might make a claim on DCC's financial resources. The level of DCC's capital, its ongoing profitability and strong cash reserves position together with a USD 50 million insurance coverage, has demonstrated that DCC is financially strong and accordingly Financial Risk has been upgraded from

A+ to AA-.

Other key developments contributing to DCC's improved risk profile over the last twelve months were:

- (i) the successful testing of the upgraded DRP arrangements in October 2009 that included some participants and the settlement chamber;
- (ii) the successful testing of DEPO/X which is planned to be introduced on 14 December and will offer new functionality to execute instructions on-line, increase system flexibility through customisation, and increase the system capacity through a scalable platform; and
- (iii) the review of all business processes and subsequent mapping of process risks through a set of documented control measures. This is planned to lead to ISO9000/9001/2000 accreditation.

Outlook Summary

The outlook for DCC is currently stable.

Although the outlook is regarded as 'Stable', which indicates that there are no imminent developments that may change the A+ rating at this stage, DCC has other activities underway that are likely to have a positive impact towards reducing its risk profile in the future. These include:

- (i) a comprehensive programme to improve governance around the internal risk management framework and tighten internal controls;
- (ii) the initiation of a project to develop a BCP response capacity based upon British Standard 25999;
- (iii) a market inclusive approach underway to support the further development of SWIFT type message formats in Russia;
- (iv) the development of procedures to monitor operational errors; and
- (v) an ongoing commitment to sound financial management.

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 (now Federal Financial Markets Service (FFMS)) project, sponsored by US AID. DCC is a part of the RTS Group.

DCC is used for settlement and safekeeping of equities traded on the RTS Classic Market, RTS Stock Exchange. 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 (UIFs). In 2006, DCC increased the range of securities for safekeeping to include ADRs, GDRs and other securities of non-Russian issuers, and in 2008 DCC introduced ESSS whereby it held security sub-accounts with – ING, Deutsche Bank and Citibank - to facilitate cost efficient transfers between custodian bank's clients and DCC participants intraday. DCC also has nominee accounts with other correspondent depositories: NDC to support MICEX trading and to provide "bridge transfers", Sberbank for Rosneft shares, Gazprombank for Gazprom shares, VTB for depository receipts and other non-Russian issuers' securities, Kazakstan CSD for Kazakstan shares and bonds..

DCC settles ordinary and preference shares, as well as some municipal, sub-federal 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 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 main shareholders in DCC are the Russian Trading System (RTS) which currently holds a 60.4% stake (thus creating a vertical silo for the equities business), and the National Depository Centre (NDC) which holds a 37.3% shareholding in DCC.

DCC supports settlement of securities traded on and off the RTS exchange. On exchange securities are traded both on the order driven anonymous market (RTS CCP) and on the quote driven market and non-anonymous OTC market which settle either DVP or FOP as agreed between the participants. DCC supports participant trades on MICEX via DCC correspondent accounts in NDC. DCC and NDC also provide the transfer of securities across the DCC-NDC security bridge. The settlement period for wholesale security trades is largely negotiated between the counterparties but typically is T+4 although by mutual agreement both RTS classic market trades and off exchange negotiated trades can be settled between T+0 and T+30. Also, the RTS prefunded T+0 market is used primarily for retail trades (which are low value – less than 2% of DCC total settlement value. In 2009 (year to 31 October), around 28% by value (USD 196 billion) and 29% by volume of trades were settled on a FOP basis being mainly foreign investor trades that settle the cash element in USD offshore. Also around 38% of trades (security leg) settled by DCC are undertaken through MICEX. Although DCC offers a single USD and RUB DVP process, only around 14% of settlements by value (USD 28 billion) and 25% by volume are settled on this basis.

| Risk Summary | Risk |
|---|------|
| <i>Overall Risk</i> | A+ |
| <p>Asset Commitment Risk</p> <p>The asset commitment risk for RTS CCP USD settlement is low as no prefunding or asset blocking is undertaken. DCC DVP settlements have an asset commitment period of around 20 minutes, the duration of the batch processing, whereas for pre-funded (retail) T+0 cycle settlement, the asset commitment period is 9 hours for both buyers and sellers. For RUB FOP settlements, sellers may suffer relatively high asset commitment risk because cash moves independently of securities settlement and can vary from T+0 to T+5. However, where ESSS is used to transfer securities the time to transfer securities is reduced to intraday For DCC participants completing trades on MICEX the asset commitment risk can vary from two to eight hours depending on the time the trade order is placed with MICEX and whether the trade is settled using MICEX DVP1.</p> | A+ |
| <p>Liquidity Risk</p> <p>RTS CCP assures settlement by way of a guarantee fund and a security liquidity support fund for settlement on T+4. The majority of transactions settle on a gross basis (either by FOP or through NDC), which implies high liquidity demands. Stock lending facilities are not provided but securities can be obtained in the form of reverse repo transactions, which are widely used in Russia. For sellers of securities not registered in DCC's nominee name or through ESSS, liquidity risk is higher due to a potentially lengthy and expensive re-registration process which depends on the security, the registrar, and/or the sub-account arrangements that DCC has with the custodian.</p> | A+ |
| <p>Counterparty Risk</p> <p>Counterparty risk exposure varies by market and type of settlement. Counterparty risk is limited for trades with RTS CCP which assures settlement on SD for all CCP trades (backed by settlement assurance funds and buy in arrangements) The risk is negligible for RTS pre-funded trades, and low for DCC DVP settlements where the counterparty risk is limited to market risk. No material penalties or rules are in place to encourage settlement for other trades. For FOP settlements counterparty risk exposure is high but lessened where ESSS is used.</p> | A+ |
| <p>Asset Servicing Risk</p> <p>DCC provides complete and accurate information of events and processes participant's instructions speedily and accurately despite the fragmented nature of registrar arrangements and the lack of any official central source of information. Information is provided direct to participants and indirectly to others via the DCC website. Instructions are sent by EDI or Terminal and processes do not readily support STP. As a part of its services it provides a high degree of protection to its participants in the event that it is negligent, as required by law.</p> | AA- |
| <p>Financial Risk</p> <p>DCC's total capital and reserves was USD 39.3 million up from USD 33 million as at 31 December 2008. This capital is supplemented by good levels of both liquid assets and insurance coverage and appears adequate to meet unforeseen claims and events. DCC is a closed joint stock company governed by shareholders and majority owned by The Russian Trading System (60.4%). The National Depository Centre (NDC) owns 37.3%. Prudent financial controls and management have preserved the on-going profitability of DCC operations over the last five years.</p> <p>NDC proposed to sell its stake in DCC to RTS, RTS also accepted the offer in February 2010.</p> | AA- |
| <p>Operational Risk</p> <p>DCC's internal auditors and risk management committee provide on-going supervision of DCC activities and operational monitoring and control. A successful external SAS 70 operational audit was completed in 2007 and an external IT audit of 'systems security' was successfully completed in 2008. Each audit was followed by proactive action by DCC to implement recommendations and reduce operational risk. DCC maintains an onsite back up system and an offsite back up centre for different departments and the Disaster Recovery and Business Continuity plans are tested annually but without the significant involvement of the participants.</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</p> | |

depository against which it suffers a rolling credit risk: Gazprombank depository for the settlement of Gazprom shares and Sberbank for the settlement of Rosneft shares, and Citibank, ING and Deutsche Bank to facilitate transfers between their custody clients and DCC participants. It has international links, through VTB, to Euroclear Bank and Clearstream Banking Luxembourg and a link with the CSDs of Kazakhstan and Belarus. This report should be read in conjunction with the assessments on those depositories.

Links Exist

Asset Commitment Risk

Summary

The settlement processes vary according to the market where securities are traded and the settlement cycles available for use. The available settlement cycles use settlement models - 1, 2 and 3 – with options that include prefunding settlement on T+0, DVP settlement ranging between T+0 to T+30, and FOP.

RTS-CCP USD on-exchange order driven (anonymous) trades settle for the 8 most liquid stocks at midday and the end of the day on T+4. RTS-CCP RUB on-exchange order driven (anonymous) trades settle on the 22 most liquid stocks at midday and the end of the day on T+4. No pre-funding is required for either of these two markets. The asset commitment period for securities and cash is less than 45 minutes. (RTS CCP requires collateral against security price movements and margin calls are made twice a day.)

RTS Classic on-exchange quote driven (non-anonymous trades) and OTC trades completed either on the RTS board or off-exchange, all settle in both RUB and USD), and may be settled by either DCC DVP settlement or FOP.

DCC DVP has an asset commitment period of around 20 minutes, the duration for each of the five daily settlement cycles – settlement is typically on T+4, but can occur on a T+0 - T+30 basis as agreed between the counterparties.

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, potentially adding to the asset commitment period. Overall asset commitment risk for FOP transactions may vary from near immediate to 5 days depending on the registration process and where the securities are held.

RTS T+0 retail trades are settled on a pre-funded DVP basis on a T+0 cycle. The asset commitment period is a maximum of 3 hours for both buyers and sellers.

For participant trades completed on MICEX using securities held by DCC's NDC sub-account, the commitment period varies from two to eight hours depending on whether MICEX DVP 1 settlement or end of day batch settlement is selected.

Processing Cycles

DCC settles equities and bonds traded on the RTS classic market (operated by the RTS Stock Exchange - RTS), the RTS T+0 market (operated by the Open Joint Stock Company RTS Stock Exchange – ZAO RTS Stock Exchange) and off-exchange OTC trades. DCC also settles its clients' transactions from MICEX (using DCC's trading sub-account at NDC).

RTS Classic Market (On-exchange):

RTS order driven trades: RTS Settlement Chamber provides settlement with RTS as the Central Counterparty [CCP] for anonymous on-exchange order driven trades in both RUB and USD. The trading session operates between 10.30am and 6.00pm. RTS is the central counterparty to all transactions executed on the anonymous market, (it currently covers 22 major liquid stocks for RUB trades and 8 major liquid stocks for USD trades).

The CCP settlement cycle is T+4 on a model 3 basis; both securities and cash are netted for each batch settlement run at 9.30am and at 6.00pm. There is no pre-funding. The CCP requires collateral against the calculated market risk which is recalculated twice daily and margin call may be made if required. RTS CCP controls the DVP process which takes around 40 minutes. The value of these trades represents less than 5% of total trade value settlement though volume is considerably higher.

RTS quote driven trades:

These trades are non-anonymous in both USD and RUB. Parties to these trades have the right to negotiate price and have the flexibility to agree the settlement arrangements by DCC DVP or FOP. The standard settlement cycle for DCC DVP is T+4, Transactions do not need to be pre-funded, nor securities blocked prior to trading. Clearing and settlement takes place through 5 intraday batch settlements: 10.00am, 12.30pm, 3.00pm, 5.00pm and 7.00pm. The early session allows securities settled through the CCP to be used on the same day.

DCC DVP settlement process for all on-exchange non-anonymous trades cleared through the RTS Classic market and off-exchange OTC transactions (USD and RUB) are settled through efficient single DCC DVP net cash batch processes as described below.

Completed trade settlement details are electronically pre-matched and accepted by the system for settlement on settlement day. Pre- matching is either conducted manually between counterparties or through DCC's electronic trade match facility.

Prior to each batch run, each participant's security settlement account is blocked and cash in their respective cash accounts is frozen. Each batch run takes around twenty minutes to complete and send reports to participants. The system will settle those transactions where both the security is available in the sellers settlement account and sufficient funds are available in the buyers' respective RUB and USD settlement accounts. Cash settlement is on a multi-lateral net basis in each currency.

Cash Settlement.

For DVP USD-denominated trades settlement, participants maintain a USD account with any bank abroad or an authorised Russian bank and hold a USD settlement account in a settlement bank for USD with (JP Morgan Chase bank, Citibank, RTS settlement chamber), in their name over which DCC holds a power of attorney (third party authorisation) to transfer funds for the purpose of completing settlement. There must be sufficient funds for settlement in their USD settlement account for settlement to occur. DCC interacts with these settlement banks via SWIFT. Participants are free to transfer funds from their USD account during the day subject to prior approval from DCC based upon their current clearing position at the time.

For DVP RUB-denominated trades, cash settlement takes place via the RTS Settlement Chamber (a non-banking credit organisation). The RTS Settlement Chamber has a link with the Central Bank of Russia for RUB Settlements though this is used outside the clearing session in cases where participants transfer funds to their correspondent accounts with the CBR. Although the CBR operates an RTGS payment system, it is not widely utilised and has not been linked to the securities settlement systems.

The RTS Settlement Chamber operates around 1,717 accounts for 552 participants (as at 01 January 2009), 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.

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 is principally for retail trading and takes place in RUB. Settlement is on a DVP Model 3 basis. Trading takes place between 10.30am and 6.00pm.

At 10.00am securities are transferred to the trading sub-accounts managed by the NP RTS which checks availability of securities and cash prior to trading. Participants can add securities and cash in real-time in the trading sub-accounts and can withdraw securities throughout the day, although, prior approval from the NP RTS is necessary. There is one intra-day batch for the settlement of T+0 trades. Participants can view their security positions through DCC after the batch is completed

Cash settlement

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.

Finality takes place simultaneously when the last of the two transfers is completed. The batches may take up to 40 minutes,

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 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:

- 7.45am on SD
- 12.00pm on SD
- 2.00pm on SD
- 4.00pm on SD
- 6.00pm on SD.

Each batch processing cycle takes around 2 minutes to complete.

Cash settlement is not managed by DCC.

MICEX trades

For the settlement of securities traded at MICEX, DCC maintains trade accounts has an account at the NDC, which is the MICEX settlement depository. DCC clients can trade on the MICEX exchange and execute security transfers through their securities sub-account held through DCC's sub account with NDC. Trades with MICEX using the sub-account can be completed on a DVP-1 or DVP-3 basis.

Cash settlement is managed by MICEX

Settlement of St Petersburg Exchange (Gazprom shares)

For the settlement of Gazprom shares traded at the St Petersburg Stock Exchange, DCC has a sub-account at the Gazprombank, which works via SDC (Settlement Depository Company controlled by Gazprombank) - the settlement depository of the St Petersburg Stock Exchange. DCC receives instructions and confirmation in respect of securities traded across its sub-account with Gazprombank. (Note Gazprom shares can also be traded on the RTS T+0 Market.) Trading takes place at the exchange and the transaction is reflected in DCC's records.

Cash

The cash for each settlement cycle is described in detail above. RUB-denominated trades, cash settlement takes place via the RTS Settlement Chamber. The RTS Settlement Chamber has a link with the Central Bank of Russia for RUB Settlements (It has a correspondent account at CBR). Although the CBR operates an RTGS payment system, it is not widely utilised and has not been linked to the securities settlement systems.

For DVP USD-denominated transactions settled with DCC, cash settlement is via three settlement banks: JP Morgan, Citibank and the RTS Settlement Chamber. Settlement is executed during five intra-day batches.

DCC is only involved in cash movements for DVP settlement. For USD cash settlement, DCC has a power of attorney to operate a USD settlement account held in the participant's name, with either JP Morgan or Citibank, in order to transfer funds for the purpose of completing settlement. DCC interacts with the settlement banks via SWIFT. For RUB settlement cash is transferred from the participants' settlement accounts held at the RTS settlement chamber.

Asset Commitment Periods

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

(i) For RTS CCP (Classic market - anonymous quotes) the asset commitment period for securities is negligible as securities are not blocked until the batch run. The asset commitment risk for cash is negligible though collateral may be required.

(ii) For DCC DVP settlement the asset commitment exposure for buyers and sellers runs from when the securities and cash are blocked just prior to the intra-day batch run until the settlement is confirmed by DCC - around 20 minutes. (Cash is transferable between the participants USD/RUB settlement accounts prior to each batch settlement.)

(iii) For pre-funded DVP settlements (RTS T+0 market), which settle on a T+0 cycle, the maximum asset commitment period is 10 hours. Since securities and cash have to be pre-funded prior to trading, the transaction will settle after the 7.00pm batch is completed. (However, participants may at DCC's discretion, transfer securities in and out of their settlement accounts depending on their clearing position at the time.)

(iv) For FOP settlements (some OTC and RTS Classic market trades) the asset commitment period for funds is indeterminate since payment is arranged between the participants, independently of DCC. DCC run five batches daily to transfer securities. Depending on where the sold security is held, and the point of delivery of the transferred security, the asset commitment risk can vary from near immediate to five days.

(v) For trades on MICEX the cash element is managed by MICEX Settlement Chamber but the asset commitment risk is limited by the regular transfer of securities across the DCC/NDC bridge. For DCC participants completing trades on MICEX the asset commitment risk can vary from two to eight hours depending on the time the trade order is placed with MICEX and whether the trade is settled using MICEX DVP.

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 (i.e. under ESSS) or at registration if the security is to be delivered into the participant's name at the registrar.

Asset Commitment Risk - Key Indicators

Irrevocable commitment to the processing cycle

| | <i>Transaction Type</i> | <i>Start</i> | <i>Finish</i> |
|-------------------|-------------------------|--|--|
| <i>Securities</i> | RTS CCP DCC DVP | Beginning of batch run Beginning of batch run | Completion of batch run (SD) Completion of batch run (SD) |
| | RTS T+0 | Start of trade session (SD) | Completion of batch run |
| | FOP | Time of trade. | |
| | | | |
| <i>Cash</i> | RTS CCP DCC DVP | Beginning of batch run Beginning of batch run | Completion of batch run (SD) Completion of batch run (SD) |
| | RTS T+0 | Time of trade (SD) | Unknown |
| | FOP | Unknown | |
| | | | |

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

For DVP settlements, securities held in DCC's nominee name are blocked just prior to batch processing for around 20 minutes, 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 and RUB settlement, DCC's system electronically matches transactions. At the start of each batch run the system verifies securities positions and blocks them. Under the control of DCC, once the availability of adequate cash is confirmed, securities are transferred at DCC.

Cash processing cycle outlined

DCC is only involved in cash movements for DVP settlement. For USD cash settlement DCC has a power of attorney to operate a USD settlement account held in the participant's name, with either JP Morgan Chase bank, Citibank, or the RTS Settlement Chamber in order to transfer funds for the purpose of completing settlement. For RUB settlement, cash is transferred from the participants' settlement accounts held at the RTS settlement chamber.

Liquidity Risk

Summary

For RTS CCP on-exchange USD and RUB Classic and Standard market trades, the CCP assures settlement by way of a guarantee fund and a security liquidity support fund to buy in securities if necessary. For non-anonymous on-exchange and OTC trades that settle DVP, credit and stock lending facilities are not provided but securities can be obtained in the form of reverse repo transactions, which are widely used in Russia. Liquidity risk is somewhat mitigated by the frequent intraday batch runs and cash netting. For RTS T+0 pre-funded settlement there is no liquidity risk.

The majority of transactions settle on a gross or FOP basis, which implies high liquidity demands

For sellers of securities that are not registered in DCC's nominee name, the liquidity risk is higher due to the re-registration process that has to occur prior to settlement and which can be lengthy (up to 5 days) and expensive depending on the circumstances and process used. The use of ESSS significantly reduces this time delay for security transfer to between 1 to 4 hours in most circumstances.

Processing Model

Liquidity Risk depends upon the type of settlement which varies by market type - on-exchange/off-exchange, anonymous or non-anonymous. RTS CCP trades settle on a BIS Model 3 basis - net (securities) and net (cash). Liquidity risk is reduced through the provision of unsecured limits by the CCP. The netting efficiency for securities and cash exceeds 90% and 95% respectively (assisted by there being only two batches per day and the securities being limited to the 8 and 22 most liquid stocks respectively for USD and RUB trades).

On-exchange, non-anonymous trades and OTC trades can be settled DCC DVP in both USD and RUB on a BIS Model 2 basis - gross (securities) and net (cash). Although some form of cash netting is provided by the RTS Clearing Centre for USD settlements 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. Liquidity risk is partially mitigated by having five intraday batch runs.

The RTS T+0 market pre-funded DVP settlement 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, whether directly on register, or indirectly in a sub-account held with a global custodian, can be immediately placed in the settlement cycle for T+0 settlement. For securities held elsewhere, the responsibility for re-registration rests with the seller and creates significant liquidity risk since the re-registration period can vary between 1 and 5 days depending on the underlying arrangements between DCC and the registry. (Refer Registration Model below)

Multiple intraday batch security transfer runs help to reduce the liquidity risk.

DCC participants rely on DCC to transfer securities to DCC's sub-account held with NDC to trade on MICEX. The liquidity risk for such transactions is limited by the frequency of batch runs to transfer shares to/from the NDC sub-account (six intraday batches), the securities acceptable for transfer (164 securities from 86 issuers) and whether the underlying trade is settled by MICEX DVP or MICEX pre-funded end of day net settlement. DCC is attempting to increase both the number of acceptable securities and the frequency of batches.

Fails Management

For the classic market RTS-CCP maintains a USD5 million cash fund to support settlement and a RUB 90 million security liquidity support fund to buy-in securities should the need arise. For the standard RUB market, each participant makes a contribution of RUB 8 million which supports a contingency fund of RUB 850 million. The CCP uses these arrangements to ensure settlement of all its trade obligations on T+4. The CCP will apply a daily penalty to a party failing to settle at an effective annual rate of 26%. (This rate is linked to the CBR rate). If the trade remains unsettled after TD+5 it is defaulted, and further fines may be applicable equal to 0.25% of trade value plus any difference between the price on TD and the price on TD+5 when the trade was cancelled.

Though no buy-in procedures are practised in the other markets by the stock exchanges or DCC, participant rules and the application of some penalties discourage settlement failures.

DCC DVP trades that do not settle during a batch processing cycle are transferred and 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 a standard report on unsettled transactions is available for participants after each batch processing cycle.

The RTS T+0 market trades do not need any fails mechanisms since securities and cash have to be pre-funded prior to trading.

Credit Facilities

Repo transactions are used by participants to obtain funds for settlement. Credit can be obtained via repos in normal circumstances which are commonly used and are market practice. There are no standard agreements for repos or a centralised facility. Normal commercial banking and credit facility arrangements are available in Russia to both foreign and local participants. DCC does not provide credit facilities, which is consistent with normal practice for CSDs.

Securities Lending

Stock lending and borrowing is not formerly supported in the current legislation and thus there is no centralised facility in the market. 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. SLB is commonly practiced in the form of reverse repo transactions. While reverse repos can be used to obtain securities, they are not as effective as loan transactions to manage liquidity as the entitlements are transferred to the recipient. On the other hand reverse repo provides the benefits of unambiguous ownership.

DCC does not offer any facilities to support SLB functionality.

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' own 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 up to 5 days, (the longer time being with those registries outside Moscow without EDI), 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 for transfers between DCC participants. For 'on register' transfers, the re-registration time can be reduced to within 1 business day, (in many cases only upon payment of a hefty surcharge), if the registrar has an electronic link with DCC through DCC's Electronic Data Interchange (EDI) system.. (At least 50% of registries offer the same-day transfer service.) . DCC currently has links with about 39 of the 55 registrars and covers around 70% of their re-registration activity. The re-registration time with registrars located outside Moscow is significantly reduced where DCC holds electronic links with these registrars.

DCC maintains security sub-accounts with Citibank, ING and Deutsche Bank. The use of these sub-accounts supports the direct transfer of securities between each bank's clients and DCC for FOP transactions. Although difficult to measure precisely, ESSS has: (i) significantly reduced the time it takes to effect the transfer of a security - the transfer time can be reduced to become closer to real-time but typically varies between one and six hours; and (ii) significantly reduced the cost of transfer (a low fixed cost against a percentage fee with a hefty surcharge in some cases for a same day service.)

For other non-EDI transfers, physical representation from the seller is required at the registrar to present transfer documents necessary for re-registration. DCC employs 20 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 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 were around 55 licensed registrars throughout Russia in August 2008, down from 60 around the same time the previous year. The trend in Russia has been to consolidate the smaller regional registrars into the larger Moscow-based registrars. This trend in consolidation is likely to continue to create synergies and meet the regulatory requirements given: (i) DCC successfully promoting the use of ESSS and opening sub-accounts with global custodians which has contributed to reducing on registry transfers in favour of more efficient forms of security transfer through ESSS; and (ii)..the FFMS has imposed rules for registrars, which include strict requirements for data back-up and recovery and high minimum capital requirements. These rules should further encourage electronic automation and improve the general registration process.

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 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 sufficient securities are available in the account, and blocks these securities for withdrawal while re-registration is arranged - either via electronic link with a registrar or the agent.

The withdrawal and re-registration process can vary from around one hour to take up to one week depending on the physical location of the registrar, the nature of any electronic document interchange agreement with the registrar, or sub-account arrangements DCC has with the custodians. Securities cannot be settled while in the process of withdrawal.

Matching

DCC provides electronic matching between participants for OTC DVP USD & Ruble trades. Matching is across 10 criteria and participants can extract reports on trade match status and match fail details during the day. Once matched trades are automatically accepted by the system for processing on SD unless cancelled by both parties prior. The DCC matching system does not have a hold and release mechanism, and therefore it is not widely used in the market by participants who need to manage client security account balances and therefore need this mechanism to control the order of client transfers. Accordingly some participants still rely on phone confirmations.

Liquidity Risk - Key Indicators

Settlement Models

Model 3; net settlements of both cash and securities: RTS-CCP (USD and RUB), RTS T+0 pre-funded trades (RUB), MICEX.

Model 2; gross settlement of securities and net settlement of cash: DCC DVP (USD and RUB) which includes both RTS non anonymous and OTC trades.

DCC sub- account with NDC supports client settlement of trades on MICEX DVP 1 (Model 1; gross settlement of securities and cash and Model 3 pre-funded settlement).

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

Comments

RTS - CCP manages market risk exposures.

Stock Lending

Is stock lending permitted in the market

No

Are stock lending facilities provided by the CSD?

No

Are stock lending facilities provided by commercial banks/brokers?

No

Comments

There is no legal basis for SLB and there are no regulations pertaining to SLB. Securities can be obtained via reverse repo transactions.

Transfer of Securities

Are securities deliveries achieved by book-entry?

Yes

Registration of Securities

Period of time required to register a holding?

Within the DCC nominee account, immediate upon settlement.

Between participant and DCC where sub accounts are held with the same global custodian, less than 6 hours and usually less than 2 hours.

Registration periods at company registrars vary between 1 and 5 days. The regulation specifies that registration should be undertaken within 3 days.

Counterparty Risk

Summary

Counterparty risk exposure varies by market and type of settlement. Counterparty risk is low for trades with RTS CCP which assures same-day settlement, for all CCP trades (backed by settlement assurance funds and buy in arrangements) The risk is negligible for RTS pre-funded trades, and low for DCC DVP settlements where the counterparty risk is limited to market risk. No material penalties or rules are in place to encourage settlement for other trades. For FOP settlements counterparty risk exposure is high.

Participant Counterparty Risk

DCC employs both DVP and FOP models, although FOP is the predominant settlement model. DCC runs multiple intra-day processing cycles for both FOP and DVP transactions. Settlements in USD are on a non-simultaneous DVP basis as cash moves offshore with DCC controlling the DVP.

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. 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. No participants were declared in default in 2008.

Risk Containment Model

The RTS CCP role in the USD classic and RUB standard markets for anonymous trades has been performed by the RTS since 17 September 2007. RTS maintain a guarantee fund, USD 5 million and securities Liquidity Support Fund of RUB90 million for the classic market and RUB 850 million contingency fund to support the standard market. These funds support assured same-day settlement of CCP trades in the event of a counterparty default.

RTS Classic quote driven trades and OTC trades may settle through DCC DVP. DCC controls the DVP process for transactions in both USD and RUB settlements on a simultaneous DVP basis. The DVP arrangements protect participants against the risk of loss of principal in a trade, but there is no liability or funds to protect against market risk and other possible consequential losses.

For RTS pre-funded T+0 non-anonymous DVP trades, settlement is assured by the requirement to have securities and cash in place prior to trading.

FOP settlements expose participants to full counterparty risk. Foreign market participants' decision to settle FOP rather than DVP, (which stems from their interpretation of the 17f-7 requirements), unnecessarily increases settlement risk. In many cases, the cash payment is not initiated until the security transfer is confirmed – a delay between security transfer and payment of up to two days may occur.

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 some 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. For trades in both the CCP and non-CCP markets, settlement is on a near-simultaneous DVP basis.

NP RTS controls the DVP in RUB in the non-CCP and the T+0 markets.

Role of Central Counterparty (CCP)

RTS Clearing Centre provides central counterparty (CCP) services for transactions executed on RTS Classic Market and RTS T+0 Market. There is a guarantee fund of USD 10 million to support the settlement of CCP trades.

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 as foreign nominees are not permitted to directly participate in the Russian market.

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 Customer questionnaire that provides information on the participant that is revised by various departments within DCC. Participant membership applications are reviewed according to specific criteria by the Access Board.

With the introduction of ESSS, DCC requires a participant in the ESSS to: (i) have a minimum capital of RUB5 billion (ii) have an insurance agreement to cover losses caused to third Parties in respect of their depository activities; and (iii) a history of no losses caused to third parties over the last three years.

However, no minimum capital requirements are set for participation. Banks must be licensed by the Central Bank of Russia, and brokers and custodians must be licensed by the Federal Financial Markets Service (FFMS).

Banks registered after 1 January 2007 must have a minimum capital of the rouble equivalent of USD 5 million. According to the bill, the licenses of 'existing' banks (banks registered prior to January 2007), whose own capital amounts to less than USD 5 million would not be revoked but they would not be allowed to reduce their own capital after 1 January 2007. Effective January 2008 the FFMS increased the minimum capital requirements for dealers to RUB 5 million and for brokers to RUB 10 million.

DCC has certain requirements that a Russian custodian should meet to participate in ESSS. The custodian should be considered a secure place of safekeeping and the volume of operations with the custodian shall be significant enough to make the scheme viable. Also the Russian custodians should have: (i) minimum equity capital of RUB 5 bln; (ii) An agreement on Insurance of Loss Caused to Third Parties in the Course of Depository Activities for the amount of RUB 400 mln at least; (iii) no pending losses caused to third parties in the course of depository activities of the custodian over the last three years; (iv) Assets under custody RUB 500 bln at least; and (v) at least 1,000 transfers between DCC and the custodian through registrars over the last calendar year.

The RTS Settlement Chamber also adopts specific participant criteria including the requirement to use EDI, have suitable creditworthiness, and satisfactorily complete a questionnaire that is filed with the FFMS.

Participant Concentration

As of 22 September 2009, DCC had 437 participants (all domestic), of which, 40.3% were banks, 31.7% brokers, 16.4% foreign-owned domestic entities and 11.6% others. (Of the 437 participant accounts, a significant number have less than 0.05% of settlement activity.)

As of 31 October 2009, the largest participant accounted for 16.0% (12% in 2008), of trades by value, while the top 10 participants accounted for 67% (72% in 2008) 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, volumes and history of late payments. DCC imposes fines on participants for late book-entry settlement instruction presentation or failure to observe contractual obligations with DCC. Although DCC does not monitor participants' exposures, they have an understanding of each client's position through their account managers.

The RTS CCP also maintains surveillance on participants with on-line reviews being undertaken to ensure the applicant's unsecured borrowing limit is monitored and reviewed accordingly. The CCP also has access to participants' financial statements and National Rating Agency ratings to assess default risk.

Guarantee Funds

RTS as CCP for anonymous trades assures same-day settlement through a cash guarantee fund of USD 5 million and a RUR 90 million Security Liquidity Support Fund for the classic market and RUB 850 million contingency funds for the standard market.

| |
|---|
| Counterparty Risk - Key indicators |
| Capacity of CSD Agent |
| Surveillance of participants by CSD Yes |
| Settlement assurance For RTS CCP anonymous trades only. |
| Participation criteria |

Banks: 147
Brokers: 276
Foreign-owned institutions: 36
Other Entities: 53
(Figures as at 22 September 2009.)

Minimum Capital (local currency)

Banks: USD 5,000,000
Brokers: RUB 10 million (from 1 January 2008)
Dealers: RUB 5 million (from 1 January 2008)
ESSS custodians: USD 5 million
Other financial institutions: None

Size of Guarantee Fund - (Name, local currency, Euro and USD - (millions))

For RTS CCP on exchange (order driven) trades. For the classic market RTS operates a cash fund of USD 5 million and a security liquidity support fund for RUB 90 million, and for the standard market a contingency fund of RUB 850 million

Does the CSD act as a central counterparty

No

Comments

RTS acts as central counterparty for transactions in the anonymous USD classic and RUB standard markets of RTS.

Participant Concentration (Local Currency Millions)

Value of transactions in the market by top 10% of participants

67%

Volume of transactions by top 10% of participants

59%

Volume of largest individual participant

16%

Asset Servicing Risk

Summary

DCC, as a settlement depository, provides an extensive corporate action service to its participants. It attempts to provide complete and accurate information of events and process participant's instructions speedily and accurately despite the fragmented nature of registrars and the lack of any official source of information. DCC supports the use of electronic communication and STP. As part of its services it provides a level of protection to its participants 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 participants 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.

Corporate action information is received by paper or fax direct from issuers and either electronically through EDI (37/55 registries) or by fax from other registries. Physical documents are scanned and entered into the System database.

DCC minimises its risk of not distributing correct information and/or missing a mandatory corporate action by: (i) cross checking notifications from the issuer/registry with notices provided directly to DCC as a nominee account holder on the register; (ii) monitoring the web sites of the issuers, registrars, state authorities and mass media to get information on the pending corporate actions; and (iii) reconciliation of balances between the DCC nominee account and DCC records.

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

Services such as corporate actions and information are provided free 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.

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.

All information is delivered free to depository participants electronically via EDI, SWIFTnet or email, and is posted on DCC's website. Clients without a depository agreement may pay a fee for access to the information on DCC's website. (Other participants pay a fee for either a one-off enquiry through the website (104 users), or subscription to a newswire service (357 users). The Russian market does not currently have standard SWIFT formats for corporate events.

DCC accepts liability for the accurate and timely provision of corporate actions information to participants if it receives accurate and timely information 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 2,868 Russian issuers with 4,297 lines of securities (as at 30 September 2009). DCC is able to manage this through its nominee account holdings.

For optional corporate actions, participants give instructions direct to the issuers. Whenever possible, communication with registrars is electronic - DCC currently receives 80% of the payment and security allocation instructions from the registries via EDI. DCC is planning to assist the development of STP and SWIFT and in the 2nd quarter 2010 it will accept SWIFT messages in MT542 and MT549 formats from its clients, and provide an interface to transfer these instructions into EDI formats for on-forwarding to the registrars.

Participants are required to advise DCC of any material change in their contact details and bank arrangements in written form. Other less material information can be provided electronically through the DCC remote access system.

For dividend payments, DCC acts as a nominee holder and has to compile and provide the list of beneficial owners to the issuer upon a request from the registrar. According to local regulations, this process has to be completed within 7 days prior to the

payment date. 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 for corporate actions. The issuer distributes interest and dividends directly or via a paying agent. Payments are made net of tax in compliance with the Russian Federation Tax Code. Around 90% of participants select DCC as their paying agent. Optional corporate actions, which require an instruction from participants (to the issuer), are distributed via DCC. The most common optional corporate events include buy-backs and conversion of shares.

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. The introduction of ESSS has added complexity to the management of corporate actions on securities held indirectly through DCC's sub-accounts, although this appears to be well managed.

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 both dividend and interest payments. Interest is distributed to participants on the day of receipt, while dividends are distributed between 1 and 3 days later (legislation specifies payment to be within 5 days) since DCC has to reconcile with accounts and issuers. In 2009, around 90% of dividends were paid on day 1 and the remaining dividends paid within three days. This is an improvement over 2008 when around 4% of dividends took more than three days to be paid.

In 2008, the income disbursed by DCC as part of corporate actions processing amounted to USD 1.22 billion, an increase of 72% over the previous year (USD 0.71 billion).

For all corporate action processing, DCC accepts financial liability for direct and indirect losses that are the result of its errors and inactivity. DCC does not accept liability for losses which are the result of an action by a third party.

Proxy Voting

Registries are concentrated in Moscow though some remain located across the whole of Russia. DCC provides an optional proxy voting service through which they 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. Typically only a small number of mainly non-resident clients use this service for 'out of Moscow' registries.

Split voting below the beneficial owner level is not supported by issuers or registries since only beneficial owners or their representatives are allowed to vote. Custodians holding aggregate securities for clients must manage their clients' proxy voting internally. Currently, electronic voting is not permitted. For general meetings, nominee holders, including DCC, are required to compile the list of beneficial owners for the issuer

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. 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 at the request of market participants

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

Income payments - RUB19.6 billion (USD0.66 billion (year-end 2008))
Number of disbursements – 12,464 (year-end 2008)

Interest & Redemptions

Income payments - 10.2240 billion (USD0.35 billion) (year-end 2008)
Number of disbursements – 2,792 (year-end 2008)

Corporate actions

468

Notification via

Proprietary (EDI), email, website, etc

SWIFT message types

No, but information can be received via SWIFTnet

Notification within

Same day subject to timely receipt of information.

Information processing comments

Corporate actions information is transmitted to participants on the day of receipt or day of receipt + 1 if received later in the afternoon.

Instruction processing

Use of depository

Market Practice for equities

Settlement on due date

No

Optional corporate actions supported

Yes

Cash account credited

No

Central paying agent

No

Instruction processing comments

Instructions received via EDI and fax.

For Settlement on due date:
Equities – No (Issuers may spread payments over five days)
Fixed Interest -Yes

Proxy voting services

On-line

No

Outsourced

No

Announcement of meetings

Yes

Yes

Results reporting

Yes

Proxy voting services comments

Physical presence is required for proxy voting purposes.

Financial Risk

Summary

DCC is a closed joint stock company governed by shareholders and majority owned by RTS (60.4%). NDC, the competing central securities depository in Russia, has accumulated 37.3% of DCC's shares.

As at 30 September 2009, net capital and reserves was USD39.3 mn, up from USD33 mn last year. The increase came largely from retained earnings, though some exchange rate fluctuation is also reflected in the change.

Although the direction of DCC can be negatively influenced where a competitor has a high representation on the Board, both oversight by the FFMS and a large number of independent directors act as a moderating influence.

The future framework of the Russian financial market structure remains uncertain although a second reading of the Russian CSD Law in the Duma is planned in 2010, which could bring clarity to the future development of the Russian financial market.

Financial and other Resources

Capital Structure

DCC's total equity and reserves as at 1 October 2008 amounted to RUB 1.124 billion, (USD 39.3 million), up from RUB 1,138 million (USD 12.04 million) for the fiscal year 2007. This comprises issued capital of RUB 796.17 million (USD 31.5 million), reserves of RUB 49.58 million (USD 1.96 million) and retained earnings of RUB 278.9 million (USD 11.05 million). DCC now appears to be well capitalised for the nature of its business and the unmitigated risks it carries.

The Russian Trading System (RTS) holds a 60.4% stake in ZAO DCC. Over 2004 and 2005, NDC acquired a 37.3% holding in DCC and it maintained this shareholding level in the take-up of the 2008 capital issue. Other minor stakeholders owning the remaining 2.3% shares are: ZAO Capital Regent Securities, AOZT Navigator Capital and ZAO AKB Zerich Investment Bank.

Having a direct competitor on its board potentially weakens DCC's position in terms of future developments though this is offset through FFMS oversight and having a high number of independent directors on the board. In 2007 DCC had problems seeking NDC's approval to increase its capital in order to meet the requirements to apply for a CSD licence by issuing additional shares. The capital increase to RUB 785 million (~USD 27 million) was finally approved in January 2008. On 13 May 2008, the FFMS registered the decision to increase DCC's capital, allowing DCC to place an additional 39,999,990 registered ordinary shares (at RUB 20 per share) via closed subscription among DCC shareholders.

The DCC Charter was amended to require approval of 75% quorum of the Board for deals equal to or over 10% of the balance sheet assets but not less than RUB 100 million.

Earnings Performance

Total income from ordinary activities in 2008 was RUB 801 million, a 25% decrease compared to the previous year (RUB 1,074.7 million in 2007). Revenues from fees totalled RUB 302 million, almost unchanged from the previous year (RUB 305.9 million in 2007). The service contributions to this revenue in 2007 (2006) were: settlements 63% (69%); Safekeeping 21% (21%); Re-registration 12% (10%) and corporate action and information services 4% (2%).

Operating expenses for ordinary activities decreased by 31% from RUB 838 million 2007 to RUB 575 million in 2008 and general, administration and other operating expenses increasing by 14% to RUB 158 million. Staff expenses (RUB152 million) were up by 4% over the figure RUB 146 million for 2006.. After other income and expenses, net profit for 2008 fell 11% from RUB 56 million in 2007 to RUB 49.7 million in 2008. Nevertheless DCC has remained profitable for the past five years, with previous recorded net profits of RUB 62.9 million in 2006, RUB 62.36 million in 2005, RUB 20.67 million in 2004 and RUB 21.54 million in 2003.

The revenues and profits 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 ratio of operating expenses to operating revenue has been well constrained. 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 Committee and the FFMS.

DCC introduced fixed transaction fees in 2009 for the majority of inter-depository operations making the costs more transparent for participants. DCC also has set ESSS fees in US dollars and increased the fee to offset devaluation of the USD.

Guarantee Funds (Central Counterparty Funds Only)

N/A - DCC does not operate a guarantee fund.

Access to Credit

DCC does not have any committed arranged lines of credit though they have some uncommitted lines. DCC has an internal policy to ensure that sufficient liquidity is maintained to cover expected monthly commitments, unexpected events, and that the balance sheet liquidity inices determined by the board are met. Liquidity levels are currently around USD26.65m, which helps to reduce the dependency for credit lines. DCC maintains around 70% of capital in liquid assets. .

Insurance

DCC has a banker's 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, with is a deductible of USD 250,000. The insurance has been renewed for 2010.

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 damage to 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 safe kept by special armoured cars;
- Losses incurred 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.

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 2007 was about USD 124.1 billion, and fell continuously to USD 29.4 million as of 31 December 2008. A decrease of around 76% over the previous year.

Central Counterparty Exposure

DCC does not have any direct central counterparty exposure. However, the RTS Stock Exchange OJSC, which is the parent company of DCC, acting as a market operator for RTS markets provides a central counterparty service (RTS Clearing Center).

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 participant's instructions but does not guarantee trade settlement.

To manage its liability, DCC has significant cash reserves (USD 26.65 million as at 1 October 2009) in addition to a USD 50 million insurance policy. DCC maintains a cash reserve fund of around USD 790,000 for any operational losses (as at 1 October 2009).

There have been no claims made against DCC in 2009 or over the last five years.

Investment in Infrastructure

DCC has sound project management procedures that ensure oversight of project progress and Financial Department control of

expenses and oversight of the budget. DCC has a project for the creation of a centralised system for securities safekeeping and transaction settlement which is ongoing.

DCC has developed a new settlement and depository system (DEPO/X), which involves a major upgrade of DCC's SDS system designed to enhance the reliability, security and scalability of the system and streamline the implementation of new technologies and services. During the first phase, the billing system, the calculation of participants' financial positions and the electronic link with depositories, were all upgraded in 2007.

Phase 2 of the DEPO/X project was implemented on 14 December 2009. The main goals of the new system are to increase performance, flexibility and capacity by introducing real-time settlements and preliminary blocking of securities for DVP settlements amongst others. Phase 2, which commenced at the start of 2007, has been delivered on budget, around USD 2.2 million. DCC have no current or pending projects that weigh on its profitability or balance sheet.

The Committee of Major Participants of DCC approved a technical development strategy based on the new system's capacity and aspects of the strategy are expected to be gradually implemented during the period through to 2013.

The strategy includes:

- the upgrade of DCC's technical facilities and the expansion of software and hardware based on scalable technology
- the simultaneous replication of operational data and other resources to a remote recovery site
- the use of electronic communication except for when electronic messaging is not allowed by law
- the update of instruction formats to ISO standards (SWIFT)
- the update of client software
- the creation of a proprietary certification centre

Financial Risk - Key indicators

Ownership of the CSD

| | Number - Domestic | Number - Foreign | Total Percentage |
|-------------------|-------------------|------------------|-------------------|
| Central Bank | 1 | 0 | 0 |
| Stock Exchange | 1 | 0 | 60.4 |
| Participant banks | 1 | 0 | 2.3 |
| Broker/dealers | 2 | 0 | 0 (Minor holding) |
| Mutual funds | 0 | 0 | 0 |
| Private clients | 0 | 0 | 0 |
| Others | 0 | 0 | 0 |
| NDC | 1 | 0 | 37.3 |

Comments

The central bank has an indirect holding through its shareholding in NDC.

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

NDC proposed to sell its stake in DCC to RTS. RTS also accepted the offer in February 2010

Statistics

| | Capital structure Local Currency |
|-------------------|----------------------------------|
| Issued capital | 796,166,000 |
| Reserves | 49,581,000 |
| Retained earnings | 279,524,000 |
| Total | 1,125,271,000 |

Comments

Figures in RUB as of 31 December 2008.

Lines of stock

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|-------|-------|-------|-------|------|
| Lines of stock | 2,824 | 3,548 | 4,079 | 4,343 | - |
| % Stock Exchange transactions cleared and settled through CSD | 100* | 100* | 100* | 100* | - |
| Total value of securities under custody | 33.16 | 85.1 | 124.1 | 29.4 | - |

Comments

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

Value of assets under custody in USD billions.

Equities

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---------------------------------------|------|------|-------|------|------|
| Market Value | 31.8 | 83.1 | 121.6 | - | - |
| % of issued securities in the CSD | N/A | N/A | N/A | - | - |
| % of market capitalisation in the CSD | N/A | N/A | N/A | - | - |

Comments

Figures in USD billions.

Fixed Income

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---------------------------------------|------|------|------|------|------|
| Market Value | 1.4 | 2.0 | 2.5 | - | - |
| % of issued securities in the CSD | N/A | N/A | N/A | - | - |
| % of market capitalisation in the CSD | N/A | N/A | N/A | - | - |

Comments

Figures in USD billions.

Money Markets

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---------------------------------------|------|------|------|------|------|
| Market Value | N/A | N/A | N/A | - | - |
| % of issued securities in the CSD | N/A | N/A | N/A | - | - |
| % of market capitalisation in the CSD | N/A | N/A | N/A | - | - |

Expenses

| | | | | | |
|--|--|--|--|--|--|
| | | | | | |
|--|--|--|--|--|--|

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|------|------|------|------|------|
| Expenses as % total operating revenue | 70% | 71% | 79% | - | - |

Operational Risk

Summary

Sound operational controls appear to be in place and they are performed in accordance with established procedures and regulations. DCC has completed and signed representations on the internal controls and procedures it maintains.

The majority of corporate actions information from registrars comes through (EDI) and fax, whereas settlement instructions from issuers/registries are more automated predominantly being sent via EDI while SWIFT is widely used by large participants for payment/receipt instructions between the RTS Settlement Chamber, clearing banks and also for affecting all ESSS related instructions. .

There is an independent internal control function performing audits on all key operational processes, including IT security. When new services are launched, operational risks are identified and monitored by the risk management department. 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.

An external audit was executed in the form of a SAS-70 report by KPMG in 2007. No similar external audit has been conducted in either 2008 or in 2009 though all significant recommendations in the 2007 report have been addressed and implemented.

DCC has formal disaster recovery and business continuity plans which are tested annually, although participants have not been actively involved in the testing. The last test was performed in October 2009. An anti-crisis committee has been established to identify infrastructural threats and critical processes that need to be maintained in the event of a number of crisis scenarios, and a BCP is to be developed based on the British standard 25999.

Depository controls

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.

Account Structure

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.

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.

Physical Security.

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 give the keys to the security staff before leaving the building. Tight security is in place for visitors who have to provide passport identification and be accompanied by a DCC employee whilst in the building.

Access to back up centre

Physical access to the backup office is restricted. Security features include an alarm and video monitoring system controlled by the Security Department of RTS, and the use of security keys. Over the last twelve months there have been no security breaches uncovered.

The server room is isolated from the rest of the rooms. It can be accessed via a separate entrance with permanent guards. There is a second room where the RTS IT support staff is located. This room is separated from the server room with a window wall. At night there is always an electrical engineer on duty in this room.

Operational audits

KPMG executed a full SAS-70 report in 2007. The report provided an independent assessment that the established controls were applied effectively. 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. In addition to the SAS-70 report, KPMG provided some recommendations to DCC's management, in order to improve their internal processes and controls.

Work on most of the recommendations has been completed (which involved a review of all their business processes and the associated risks) and outstanding work (including procedures to monitor operational errors), is in progress. A subsequent outcome was a structured catalogue of control measures and respective operating business processes that link to these control measures)

No subsequent external operational audit was conducted in 2008 and 2009.

DCC implemented a system for information security management, including network security in accordance with the international security standard ISO/IEC 27001. This work was undertaken with assistance from ZAO Dialogue Science, a certified partner of the British Standards Institute (BSI). At this stage DCC's security information system remains uncertified.

DCC also has an internal control service which is responsible for monitoring compliance with the established rules and procedures, as well as the efficiency and reliability of transactions. Currently, there are three employees with the Internal Controller reporting directly to the Board of Directors on a quarterly basis. Operational audits are now undertaken based around the documented business process descriptions and identified associated control measures. All operational areas are reviewed although in the IT area only IT security is covered. 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. Risk management is conducted through: the Internal Control Department (headed by the Internal Controller), the Statutory Support Department, (headed by the Legislation Controller), the Information Controller and the Risk Management Director. The functions of the units 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.

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 DCC's records 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.

In respect of ESSS, DCC reconciles their balances in sub-accounts held with custodians on a daily basis using SWIFT.

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.

Recruitment and Staff training

DCC has formal documented processes and procedures for staff recruitment and training that include: Procedures for Personnel Selection, Regulations on Staff Appraisal, and Regulation on Personnel Training amongst others.

Employees are selected on a competitive basis taking account of applicants qualifications for key positions. Selection is carried out using both internal resources and specialised recruitment agencies depending on the circumstances. Candidates are interviewed and before selection the Internal Security Department conducts mandatory stringent background checks on the candidates.

HR manages the induction process for all new staff including the completion of all hiring documents with newly-hired employees signing 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 undergo a three-month probation period and are provided a 'Handbook for New Employees' to provide guidance on DCC's administration, work processes and other requirements. If a new employee receives no critical remarks during the probation period with respect to the performance of his/her job responsibilities then their position is confirmed.

DCC is committed to the ongoing enhancement of employee skills and the costs of external training are incorporated into the budget planning process. Line managers have the responsibility to arrange training for their staff, which in many cases is conducted in-house. Following the Information security audit, IT staff training in related areas of information technology and security has been enhanced.

Clearing controls

Currently DCC clear USD DVP transactions for which it possesses a clearing licence. For USD clearing activities, DCC maintains links with the settlement banks (i.e. JP Morgan and Citibank) and with RTS Settlement Chamber via SWIFT. Participants maintain an autonomous USD account with one of the clearing banks, and maintain a parallel account over which DCC has a power of attorney to control (debit/credit the account), in order to meet the respective participant's USD settlement obligations. Participants can freely transfer available funds between their autonomous and parallel accounts for DCC USD DVP settlements.

DCC clears RUB transactions through the RTS Settlement Chamber via RTS EDI.

DCC also has a link with the RTS Stock Exchange via the EDI system through which instructions between the RTS Settlement Chamber and DCC can be exchanged.

Data processing controls

Receipt of instructions

DCC receives instructions mostly via EDI using a remote terminal, SWIFT, and on rare occasions paper form. (There is still a legal requirement to accept paper based instructions).

The EDI system has been certified by the Federal Security Service (FSB) for use in protecting data through encryption and electronic/digital signatures. Input and input control functions are the responsibility of participants.

Around 10% of participants send transaction instructions directly via SWIFT. SWIFT is used for exchanging data with the settlement banks when executing DVP settlements and for all communications around ESSS transactions and payment instructions. Physical and electronic access to SWIFT transactions, as well as access to data files, is limited to authorised DCC staff only.

Only around two instructions per month are sent via fax or paper. Tight controls on processing these instructions are in place.

Communication and Network security

A 'fibre optic' connection has been established between the DRP and main offices. This bandwidth is used for online replication of all operational databases and files on a physical level in real time mode using the HP EVA4000 hardware + software solution. Data is replicated and restored on the server in the DRP office in real-time.

Different ISPs are used to provide Internet connection for both sites and in the event that one ISP is unavailable, the connection is rerouted automatically via the second ISP.

This year the Company implemented the system for management of information security including network security in accordance with the international information security standard ISO/IEC 27001. The system was implemented in cooperation with ZAO Dialogue Science, a certified partner of the British Standards Institution (BSI). DCC plan to achieve ISO/IEC accreditation in due course.

Access control level (ACL)

The Single Windows 2000 domain is used. The domain is divided into two sites which correspond to the main and DRP 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 DRP sites.

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

Email and Internet security

CISCO IronPort appliance was installed in the main office and the Back-up Center of DCC to ensure advance information security and increase the efficiency and protection of the e-mail system.

Also, DCC has introduced the Websense Web Security solution intended to introduce a range of measures to prevent leakage of confidential information, through web filtering, to protect against spyware, Trojans, malicious websites, and other such external threats.

The Company uses an antivirus defense-in-depth solution: workstations and servers in different systems are protected by antivirus software produced by different vendors.

User workstations are protected by Symantec antivirus software with firewall components and centralised management.

Employees do not have direct Internet access (web or any email except corporate Exchange server) except for Client services and PR departments. The email and internet security was last successfully tested by a penetration test audit conducted in 2008.

Disaster Recovery/Business Continuity Procedures

Disaster recovery and business continuity plans are in place and are 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.

Data is replicated and restored on the server in the DRP office in real-time. This makes the DRP office operational at all times and it is regarded as a 'hot' site facility. (I.e in a disruptive event the processing can be seamlessly continued without loss of data at the DR site.)

To increase efficiency, reliability and resilience of the main office DCC replaced the active network hardware and LAN topology in Q1 2009

Different employees go twice a year to the DRP site for familiarisation. A full simulated test is executed annually which is a full simulation of the DRP site. The servers are restored using the last working day's data. The last test was executed in October 2009. (An audit of the 2009 DRP test was not undertaken.) DRP tests to date have not been widely executed with market participants nor has testing of access to DCC DRP from participants' and RTS's own DRP sites been conducted.

The disaster recovery plan has not had to be activated within the past four years. Nevertheless there were three outages of certain communication aspects (SWIFT and linkages to the DR site) that did not have a material impact on the completion of trade settlement on SD).

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 DRP and business continuity site is located around 20 kms from DCC's main offices, where the main IT infrastructure for RTS is located. It is only accessible to selected DCC employees. It has 18 work stations with designated equipment for each area (3 for the Clearing Department, 4 for the Depository Department and the remaining for all other departments). There are three rooms with work places for employees of DCC, one room is for the IT equipment of DCC and one server room with all the backup server architecture. The latter room is shared with the RTS server equipment. DCC estimates that they could continue running operations from the DRP centre for over a month if necessary. The last test with employees took place in October 2009, but with minimal participant participation.

DCC has two independent phone line providers. Both the main and backup offices are independently connected to the two telephone providers and the E1 direct optical link between the main DCC Office and the Backup Office adds resilience to the communication network. In a DR event, not all DCC phone numbers that terminate at Main DCC office would be available to participants. At the moment, DCC is working on additional changes - backup communication channels for Internet access and radio-telephone.

An anti-crisis committee was established in 2009 and an Emergency Committee is being formed to identify infrastructural threats and critical processes that need to be maintained in the event of a number of crisis scenarios. A BCP was to be developed based on

the British standard 25999 by October 2009.

Depository Liability

DCC is required to accept 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 were sometimes delayed on 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

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 accounts at Deutsche Bank, Citibank and ING Bank.

DCC has accounts at the Central Depository of Kazakhstan and the Republican Central Depository of Securities of the Republic of Belarus (RCDS) and has direct accounts with Euroclear Bank and Clearstream.

CSD - CSD Links

Domestic Links:

DCC links to NDC through nominee accounts opened in their systems (i.e., DCC is a direct participant of NDC and vice versa). There is also a bridge between DCC and NDC which permits participant settlement through either depository in a 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 settlement depository for 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, ING Bank and Deutsche Bank to facilitate ESSS .

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 and the Republican Central Depository of Securities of the Republic of Belarus (RCSD).

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. Transfer of securities through the bridge takes place at 12.50pm, 2.50pm and 5.25pm. 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.

There were 119 securities issues from 87 issuers eligible for DCC-NDC bridge at September 2009. The limit of the securities that can be simultaneously in NDC safekeeping is USD 50 million. DCC is proposing measures to significantly extend the list of securities eligible for settlement via the bridge, increase the number of batches; accept SWIFT message formats and reduce fees.

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:

- CSD of Kazakhstan
- The Republican Central Depository of Securities of the Republic of Belarus (RCDS).

Domestic:

- National Depository Centre (NDC)
- Gazprombank Depository for Gazprom shares
- Sberbank for Rosneft shares
- Citibank for domestic securities
- ING for domestic securities
- Deutsche Bank for domestic securities

Governance and Regulation

Management and governance of the depository

Management and governance of the depository

The composition of the Board of Directors has three representatives of ZAO NDC that holds 37.29% of ordinary shares of ZAO DCC. RTS which holds 60.64% of ordinary shares of ZAO DCC has one representative on the Board and there are a further 7 independent members of the Board of Directors that represent major participants of ZAO DCC being professional securities market participants. This structure is compliant with the independence criteria described in recommendatory articles of the Corporate Code of Conduct approved by Order No. 421/r of 4 April, 2002 of the Federal Commission for the Securities Market. (Four Board members are also on the Board of RTS which indirectly bolsters its representation.)

The Board of directors: (i) oversee and approve all aspects of the depository's day-to-day and strategic decisions; (ii) 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; and (iii) 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. Both the President and Internal Controller report directly to the Board.

DCC also has a Committee of Major Participants (CMP) which is responsible for discussing and approving the main issues such as the fee structure, service changes, new products, Clearing Rules etc. The CMP meets at least quarterly and 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 (President).

Other Committees

The only other Board committee that exists is the Committee for Strategy Planning. DCC does not operate an Audit Committee or a Risk Management Committee.

Management Practices

DCC has weekly meetings with its top managers and sub-divisions have weekly meetings with managers and staff. Job descriptions have been prepared for all positions and a formal appraisal system for staff is to be introduced in 2008/9.

Disclosure of Information

DCC operates a website in English where it provides a wide variety of corporate and statistical information including its charter licence, registration certificates, annual report, financial statements, terms and conditions, depository activity of DCC, Clearing Rules of DCC, DCC Information Agreements on EDI and SWIFT, fees, ratings, data on issuers securities and registries, and good information on other DCC related issues. DCC has appointed a person to take responsibility for the accuracy and timeliness of information and data on its website. DCC does not publish information such as their response to the AGC questionnaire and responses on IOSCO standards.

Regulatory and independent examination of the depository

The Federal Financial Markets Service (FFMS) regulates DCC. It has the power to approve new services for 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.

| | |
|--|--|
| Dematerialised | |
| Domestic eligible participants 167 banks, 131 brokers, 68 foreign-owned local banks and 48 others. | |
| Foreign eligible participants No foreign nominees. | |
| Ownership RTS Stock Exchange (60.4%), National Depository Centre (37.3%) and others (2.3%). | |

Internal Safety Measures

| |
|---|
| <i>Participant Eligibility Criteria</i> |
| Minimum Capital Standards Yes |
| Comments Minimum capital requirements for banks stipulated by CBR and for brokers by the FFMS. |
| <i>Financial Aspects</i> |
| 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 Lien on stock: Not possible to have a lien on nominee accounts but could be done on a participant's own assets. |
| <i>Safeguard Facilities</i> |
| Offsite Backup Yes |
| <i>Disaster Recovery</i> |

Services Provided

| |
|---|
| <i>Matching</i> |
| Pre-matching services Yes |
| Matching services Yes |
| Comments Securities are committed when matched. |
| <i>Clearing</i> |
| Clearing services Yes |
| Comments For USD DVP |
| <i>Securities Settlement</i> |
| Book-entry settlement Yes |
| Fails management No |
| <i>Cash Settlement</i> |
| Internal cash settlement No |
| <i>Stock Lending</i> |
| Securities lending for fails coverage No |
| Comments Reverse repos are used regularly for non-CCP settlements |
| <i>Asset Servicing</i> |
| Notifications Yes |

| | |
|--|---|
| Disaster Recovery Plan Yes | Securities processing Yes |
| Back-up power generator Yes | Paying agent Yes |
| UPS (Uninterruptible power supply) Yes | Central registrar No |
| | Proxy voting services Yes |
| | <i>Communications</i> |
| | Electronic communications Yes |
| | <i>Reporting Services</i> |
| | Electronic reporting Yes |
| | Reporting of every movement Yes |
| | Regular statement of securities deposited Yes |

Definition

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Publication Date

The publication date represented here is December 2009. This is the date that the assessment report has been reviewed by third parties including the CSD. The report is updated on an on-going basis throughout the year as new information is received and should be read in conjunction with the relevant newsflashes 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

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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processes in place to provide third-party audit evidence of the adequacy of the controls.

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Report Date

Russia

9 February 2010