



**NATIONAL  
SETTLEMENT DEPOSITORY**  
MICEX-RTS GROUP

## ANNUAL REPORT

2011



**NATIONAL  
SETTLEMENT DEPOSITORY**  

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**MICEX-RTS GROUP**

NSD  
ANNUAL  
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## ADDRESS OF THE CHAIRPERSON OF THE SUPERVISORY BOARD

Dear Colleagues,

For the investment community, the most important breakthrough of 2011 was, undoubtedly, the arrival of the long-awaited Law on the Central Securities Depository (CSD Law).

In fact, the only contender for the role of the Central Securities Depository is the National Settlement Depository. Already now, NSD meets most of the criteria set by the CSD Law. However, there is still some way to go before we bring NSD's activities into compliance with the CSD Law.

One of the important milestones in the process of preparing NSD for its role as the CSD was the Shareholders' Agreement in relation to NSD executed on 30 June 2011. This document secured a balance of interests between the majority shareholder (MICEX-RTS) and the minority shareholders and users of NSD's services.

NSD sees as one of its main objectives to be a market structure. This is why the key role in running the company during the periods between General Meetings of Shareholders is played by the NSD's Supervisory Board, which includes representatives of the company's major customers, as well as an independent director. In 2011, NSD's Supervisory Board held 26 meetings which considered and took decisions on items of business relating to corporate governance development, pricing policy, budgeting, improving the risk management system, and took steps to control the implementation of the securities depository's top priority projects and current operational results.

At present, NSD's governing bodies are making every effort to pave the way for the advent of the CSD on the Russian securities market. We are confident that achievement of that goal will significantly improve the competitiveness of the post-trade infrastructure on the Russian market and make it more attractive for investors.

I would like to extend thanks to NSD's officers and employees, our customers and partners for the well-coordinated and professional work and their proactive involvement in the major reform of the Russian securities market infrastructure.

Chairperson of the Supervisory Board, NSD  
Deputy Chairperson of the Executive Board, Sberbank of Russia  
**Bella Zlatkis**







## ADDRESS OF THE CHAIRMAN OF THE EXECUTIVE BOARD

Dear shareholders, customers, and stakeholders,

The year of 2011 was the first year when NSD started to operate as an infrastructure organization providing depository, settlement and banking services to market participants. NSD's performance reached record levels, with the turnover in the securities accounts and cash accounts of NSD's customers in 2011 reaching RUB 95.9 trillion and RUB 239.6 trillion, respectively, a respective increase by 41.5 and 37.4 percent compared to 2010.

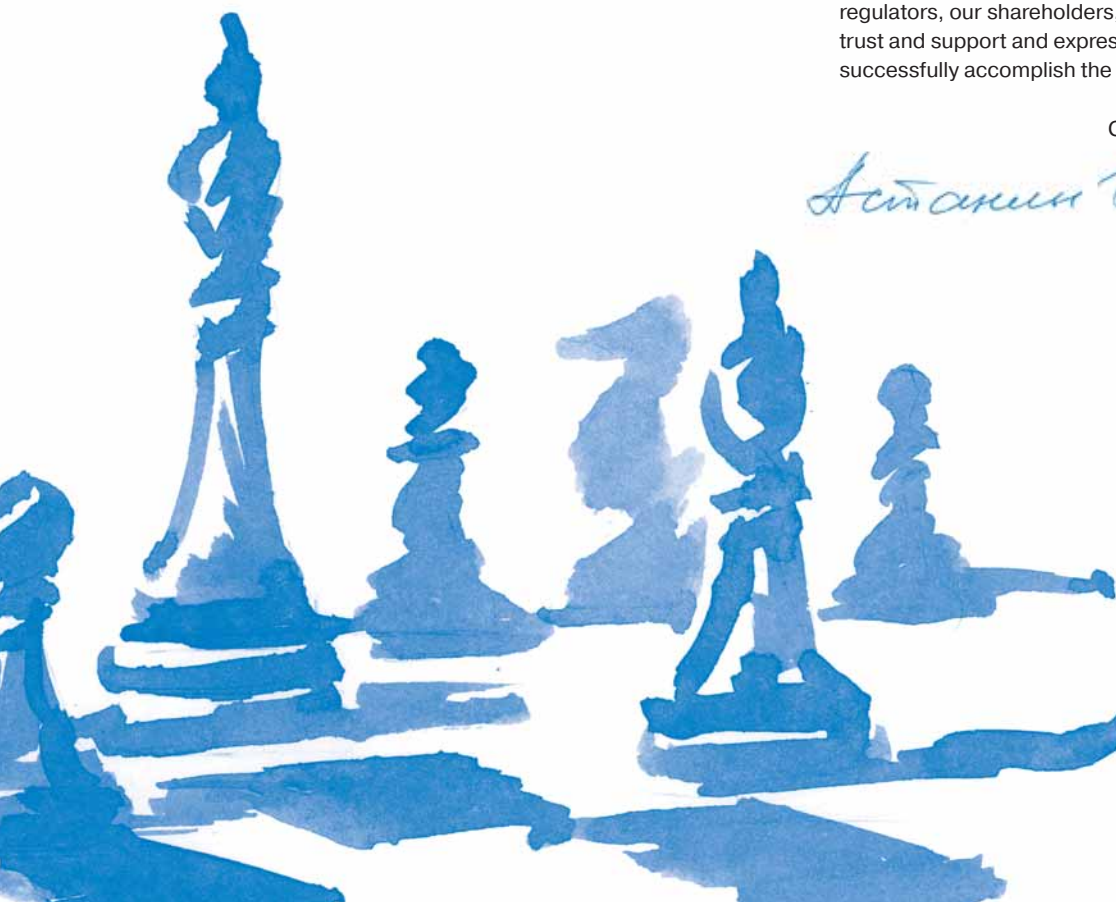
The merger of Russia's two major stock exchanges, MICEX and RTS, in 2011 paved the way for the consolidation of the settlement infrastructure for the Russian securities market. In 2012, NSD will need to do a good deal of work to integrate with DCC and RTS Settlement Chamber and to obtain the CSD status.

Preparing for these systemically important events for the Russian securities market, NSD is actively upgrading its internal business processes and developing its software and technologies needed for a reliable and high-tech interaction among all links of the infrastructure chain, in particular, between the future CSD and registrars.

NSD is working hard to boost the competitiveness of the product range of the MICEX-RTS Group's settlement infrastructure, create and implement new services, including the area of corporate actions processing and multi-currency DVP settlement. Further development will be carried out in securities lending and borrowing, collateral management and repo transactions. NSD plans to create a repository in 2012.

NSD is faced with really ambitious goals. I would like to thank the regulators, our shareholders, customers and partners for their trust and support and express confidence that NSD's staff will successfully accomplish the objectives set before them.

Chairman of the Executive Board, NSD  
**Eddie Astanin**







## POSITION IN THE SECURITIES INDUSTRY

### **NSD AS THE CENTRAL HUB OF RUSSIA'S SECURITIES SETTLEMENT INFRASTRUCTURE**

National Settlement Depository ("NSD") is a part of the MICEX-RTS Group and a provider of safekeeping, settlement and banking services to financial market participants.

NSD is Russia's largest settlement non-banking credit institution; in terms of the scope of transactions, capitalization and the number of market participants served by NSD, it is comparable to Russia's major banks.

NSD is Russia's largest securities depository in terms of assets on deposit. NSD settles both on-exchange and over-the-counter trades in all kinds of securities of Russian issuers.

NSD is primarily focused on providing settlement services for the MICEX-RTS Group's markets. NSD acts as:

- *the settlement depository* settling securities trades executed on the trading venues of the MICEX Stock Exchange and MICEX-RTS. NSD provides settlement services both in connection with securities offerings and placements on stock exchanges, as well as their subsequent trading on the secondary market;
- *the settlement organization* providing cash settlement both in Russian roubles and foreign currencies for trades made by market participants on the MICEX-RTS Group's stock exchange markets.

NSD is preparing to settle the securities and cash legs of trades cleared by RTS Clearing Center (part of the MICEX-RTS Group).

NSD also acts as the settlement depository for Saint Petersburg Currency Exchange ("SPCEX").

Under the agreements with the Bank of Russia, NSD acts as the Settlement Center for the organized securities market, i. e., it is a credit institution authorized to make payments in respect of the Bank of Russia's lending and deposit transactions made in the MICEX-RTS trading system.

NSD is a direct participant in the Banking Electronic Speedy Payment (BESP) System of the Bank of Russia.

It plays a key role on the Russian debt market, acting as the head depository for bond issues. NSD safekeeps the global certificates and maintains ownership records for 100 percent of the federal government securities and 99 percent of all corporate and regional (both subfederal and municipal) bonds.

NSD is a leader in providing paying agent services on the Russian corporate and regional bond market. As at 1 January 2012, on the paying agent market services, NSD accounted for 42 percent of the total quantity of corporate and regional bonds in circulation and for 45 percent of the number of issuers of corporate and regional bonds.

Also, NSD acts as the *National Numbering Agency* (NNA) for Russia, allocating ISIN and CFI codes for Russian securities and taking part in the creation of an efficient international securities identification system. NSD is one of the four organizations in the world authorized to act as a Substitute Numbering Agency (SNA). NSD is the SNA for the CIS countries; its principal objective is to assign ISIN and CFI codes for the CIS countries' securities and to assist them countries in the creation of their own NNAs.

NSD is a participant of the international securities infrastructure supporting settlement on the global financial markets through direct accounts maintained with Clearstream Banking S. A. ("Clearstream") and Euroclear Bank S. A. /N. V. ("Euroclear"). NSD provides its customers access to the CIS securities markets through the depository links established with the Central Securities Depositories of Azerbaijan, Armenia, Belarus and Kazakhstan.

NSD is a member of the leading Russian and international securities settlement industry associations.



## NSD'S CUSTOMERS

NSD endeavours to further improve the quality of services provided to its customers and expand the range of services offered. Among NSD's customers are legal entities, such as professional securities market participants and investors from all over Russia, as well as foreign entities.

In 2011, NSD's customer base grew by 62 entities, with the number of customers using the company's services reaching 2,070.

In 2011, NSD's key objective in the area of customer relations was to implement a customer-centric approach. A big step towards that end was the survey conducted by the company using the Customer Satisfaction Index methodology, which serves as an indicator of the customers' perception of NSD's performance. The Customer Satisfaction Index score was 84.6%. The survey not only helped identify the customers' key requirements and priorities, but also gave an assessment of the quality of NSD's services. The survey played an important part in determining the company's future development priorities.

Seeking to meet the best international practices in customer services, NSD started to cooperate with Alain Meyers, a reputable expert with a long-term experience for the major ICSDs, Clearstream and Euroclear. The aim of such cooperation is to implement the best practices and train NSD specialists in promoting services and customer relations management.

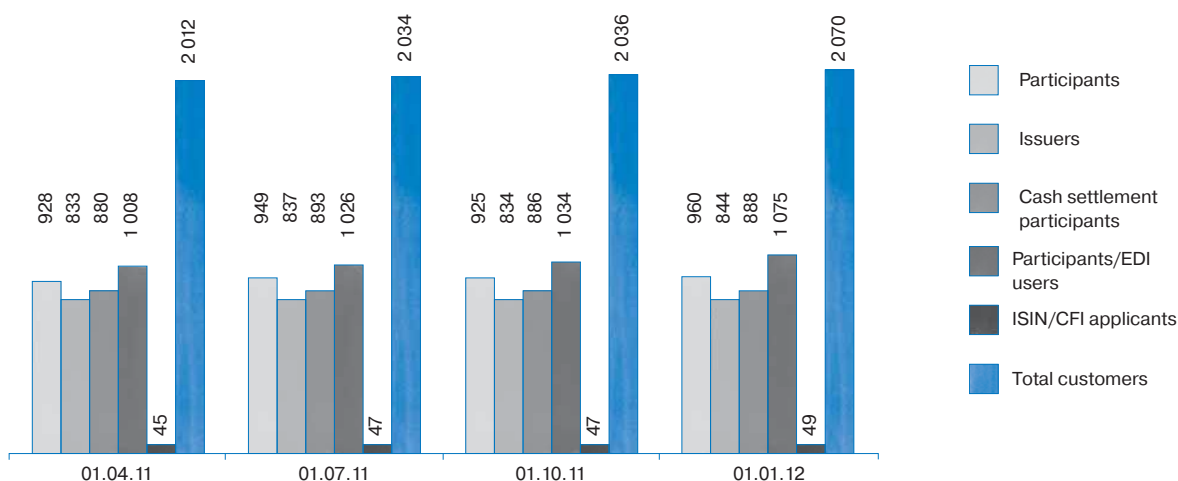
The company has a successful staff of account managers which started in the reporting year to provide support to clients in the cash settlement process, thus introducing a "one-stop" principle in interacting with NSD. Seeking to improve the efficiency of customer relations, NSD in 2011 switched to the centralized process to receive incoming calls from NSD's clients and counterparties.

Certain changes were made to the corporate website, including upgrade of the site structure, expansion of the range of services and creation of a number of new sections, such as "Procurement of Services". This section contains information on the services provided by the Depository and their advantages and additional opportunities, which helps clients to promptly receive advice from NSD personnel on the issues related to access to new services.

On-going upgrades to the NSD website are intended to increase the amount of disclosed information and provide information in the most understandable form, and create a user-friendly interface helping the website visitors quickly and easily find the necessary information.

Work was continued to create a client's personal cabinet on the corporate website containing information on the account manager and a form to provide feedback to the Customer Relations Department's employees. NSD conducts interactive surveys helping identify the client's demand for various services and evaluate the account manager's performance as part of the 'Manager of the Year' contest held annually by NSD.

## Quantity of customers



In 2011, special attention was paid not only to providing competent and prompt support to customers on any issues they have, but also to promoting NSD's service offerings proactively. Customers were informed about the new products and services and the steps to be taken to get access to them, during personal meetings, conference calls, meetings of the Customer committees and educational seminars.

Last year, the Quality and Risks Committee held five meetings, and the Committee on Settlement and Depository Activities held eight meetings. There were also 70 meetings with representatives of major foreign banks and investment companies. Over 100 clients took part in each of the 4 educational seminars held in Moscow, and 120 representatives of regional clients attended the seminars in Saint Petersburg, Nizhny Novgorod, and Novosibirsk.

Seeking to broaden the range of products and modernize and improve its software solutions, NSD conducted 18 surveys last year to identify its customers' preferences.

As a result of the efforts to promote NSD's services made in 2011, the number of clients who settled transactions via the depository links with Clearstream and Euroclear grew from 65 to 131. Also, there was an increase in the number of customers using the Speedy Settlement Scheme (SSS) and DVP settlement, with some customers starting to use NSD's new services — settlement repo transactions and the Speedy Transfer Scheme (STS). Aware of the need to constantly strengthen partnership relations with our customers, the Company created the NSD Expert Club which includes representatives of the key users of the depository's services. NSD discusses with the Club members, on an informal basis, its proposals on the development of technologies and obtain their feedback on the products and services being implemented by them, as well as consider the customers' suggestions and wishes on how to improve the depository's activities and product range.

Acting pursuant to the resolution of the NSD's Supervisory Board adopted in 2010 in relation to the project to improve NSD's regional network, NSD closed during the first half of 2011 six of its branches in the cities of Rostov-on-Don, Nizhny Novgorod, Samara, Yekaterinburg, Novosibirsk, and Vladivostok. One of the key tasks to be addressed in the course of closing the branches was retention of the clients based in the respective region and ensuring stability and quality of the services provided. 91 clients who had previously used the settlement services via the branches are now served by NSD's head office.

In April 2011, seeking to streamline the relationships between NSD and its regional clients (which include 135 participants and 27 issuers, served under issuer account agreements), NSD and MICEX signed an Agreement on Performing the Functions of NSD's Representative designed to enable clients to submit and receive documents and consult specialists of the MICEX branches and regional offices at their respective locations.



## MAJOR PROJECTS

### Information Services to Support Processing of OTC Repos (Settlement Repo Transactions)

In 2011, NSD developed a new technology to provide information services required for securities lending operations in the form of settlement repo. This technology helps our clients make the procedure of execution and settlement of over-the-counter trades in securities much easier and faster, and promptly cover a shortfall in securities needed to settle a trade, earn additional income on their securities held at NSD, get access to financial resources needed for securities settlement on the OTC market, and reduce the settlement failure risk. NSD provides information services by preparing, on customers' requests, information reports which may be used as templates for settlement repos and related templates of payment documents; customers are able to designate the securities as available for settlement repos while reserving the right to dispose of their securities without any restrictions, and execute settlement repo transactions by exchanging transit electronic documents.

### Settlement of Basket Repos on the SPCEX

On 15 November 2011, the Bank of Russia started to make direct repo transactions with credit institutions on the Saint Petersburg Currency Exchange (SPCEX). NSD upgraded its LUCH software package and developed a dedicated software solution designed to help participants calculate a basket of securities in a repo transaction. In the future, NSD plans to enable customers to manage collateral in direct repos with the Bank of Russia made on the SPCEX.

During 2011, NSD processed 108 transactions related to the direct repos made with the Bank of Russia, with the market value of securities transferred equal to RUB 1,541 million.



#### DVP Settlement in Roubles via Euroclear and Clearstream

2011 saw the implementation of the project “DVP Settlements in Roubles via Clearstream and Euroclear”. Beginning in May 2011, NSD’s customers were given an opportunity to settle transactions in Eurobonds of the Russian Federation, corporate Eurobonds and depositary receipts via the international securities settlement systems in the national currency (i. e., Russian Roubles).

The total value of trades settled on a delivery-versus-payment (DVP) basis in Russian Roubles, Euro, US Dollars, and Pounds Sterling) via NSD’s correspondent accounts opened with Clearstream and Euroclear reached in 2011 RUB 96 billion, up 74 percent on 2010. The number of trades settled on a DVP basis via Clearstream and Euroclear grew 60.4 percent on 2010 to 1,054.

#### DVP Settlement of OTC Trades Based on the “Single Instruction”

NSD introduced a new securities transfer technology which allows control of the cash settlement; if the customer so wishes, it is possible to effect cash settlement using the customer’s payment instruction or based on its ‘single instruction’, i. e., the securities settlement instruction based on which NSD generates a settlement document under the bank account agreement entered into with the customer. This new securities settlement technology using the ‘single instruction’ method helps our customers optimize the time and effort needed to generate instructions by using a single software solution, thus cutting their transaction processing costs.

In 2011, the value of OTC trades settled on a DVP basis internally on NSD’s books of record reached RUB 44 billion, a 17.4 percent increase compared to 2010.

#### New Matching Technology

In 2011, NSD developed a new technology for processing internal securities transfers with a confirmation. The new technology of matching (comparison) instructions submitted by counterparties based on the reference and transaction date makes it possible to automatically uniquely identify the pair of matching settlement instructions, shorten the time needed to execute such instructions and reduce the risk of error inherent in the ‘manual’ matching of instructions. Besides, our customers are provided with additional reports on the existence/non-existence of a matching instruction from the counterparty and on any data differences in the matching instructions found during matching.

#### DVD-Based Securities Settlement

During the reporting year, NSD implemented a new technology designed to transfer securities on a “delivery versus delivery” (DVD) basis, including with the possibility of cash settlements, which provides for simultaneous execution of several instructions bundled into a single package. This technology may be used in securities exchange transactions, including in the course of corporate actions and/or write-off of a restructured securities issue and allows control of the delivery of a new securities issue. If the terms of restructuring provide that the securities holder is entitled to a combination of new securities and cash, the DVD settlement technology makes it possible to transfer securities while ensuring that the accompanying cash settlement takes place.

#### Electronic Interaction Among Securities Depositories and Registrars (Speedy Transfer Scheme, STS)

2011 saw the implementation of a project which enables legal entities which have accounts with registrars and are connected to NSD's Electronic Document Interchange (EDI) system to send documents requesting transactions in their accounts with registrars and submit lists of securities holders in an electronic format (Speedy Transfer Scheme, "STS").

By the year end of 2011, among the STS users there were 21 registrars and over 40 NSD's customers. In 2012, NSD and registrars will continue negotiating agreements on reregistration-agent services.

#### DISC Information System

NSD in 2011 went live with its new Depository Information Service Center (DISC) Version 1.1, which expanded the functionalities of the information system and added new information modules. DISC is a solution designed to provide structured information on the securities handled by NSD and the related corporate information.

#### Speedy Settlement Scheme between NSD and VTB Bank

In December 2011, NSD completed the project to set up speedy settlements ("Speedy Settlement Scheme", or "SSS") between NSD and VTB Bank. The Speedy Settlement Scheme makes it possible to process transactions with 35 share issues of 27 issuers, and among them, those for which VTB Bank has Depositary Receipts programs in place. The new scheme will deliver significant costs and time savings to NSD's and VTB Bank's customers relating to securities transfers between their accounts maintained at the securities depositories. SSS between NSD and VTB Bank was the third one in addition to the already existing Speedy Settlement Schemes between NSD and ING BANK EURASIA (since 2007) and NSD and Citibank (since 2010).

The number of trades settled via the SSS in 2011 was equal to 1,921 transactions worth over RUB 200 billion.



#### Message Standardization in Accordance with ISO 15022

In accordance with the recommendations made by Russia's national association of SWIFT users, ROSSWIFT, NSD migrated in 2011 to the new version of SWIFT formats: all incoming and outgoing messages formats were brought into accordance with ISO 15022. An extra advantage is that the message formats are close to the ISO 15022 formats used by DCC, which contributes to the resolution of the integration issues.

#### Servicing of Depositary Receipts Programs

In September 2011, NSD gave its participants an opportunity to open and use special sections, "DR" type ("Underlying securities under a Depositary Receipts program"). Under the special regime of such new sections, it is possible to credit such sections only with those securities that are included in a Depositary Receipts program, and to control the total quantity of securities held in the sections so as to prevent exceeding the DR program's limits. In accordance with the special tariff regime for DR sections, participants are not charged the safe-keeping fee, but only need to pay the processing fee for any transactions related to the DR section.

The first participant to use the advantages of the DR section was Citibank, which in autumn 2011 launched a Depositary Receipts program with the underlying securities held in the accounts with NSD.



## PERFORMANCE IN THE KEY AREAS OF BUSINESS

### NSD'S OPERATIONAL HIGHLIGHTS 2011

Indicator	01.01.2011	01.01.2012	Increase/decrease, %
<b>GENERAL INFORMATION</b>			
Number of customers <sup>1</sup>	2,008	2,070	3.09
including:			
number of participants	915	960	4.92
number of issuers	840	844	0.48
number of cash settlement participants	879	888	1.02
Number of participants' securities accounts <sup>2</sup>	2,730	2,743	0.48
Number of customers' bank accounts	2,607	3,043	16.72
<b>SECURITIES ON DEPOSIT</b>			
Value of securities in safekeeping <sup>3</sup> , (billions of RUB)	7,718	8,139	5.45
Quantity of securities held (billions)	2,016	2,562	27.08
Quantity of securities issues accepted for servicing	3,268	4,193	28.30
Number of issuers whose securities are safekept at NSD	1,575	2,060	30.79
<b>CASH SETTLEMENTS</b>			
Cash turnover in customers' bank accounts (billions of RUB)	174,369	239,609	37.41
Turnover of funds in the course of trading on the MICEX-RTS Group's markets (billions of RUB)	119,789	150,710	25.81
Turnover of funds in NSD's correspondent account with the Bank of Russia via the BESP System (billions of RUB)	88,876	162,259	82.57
<b>BOOK ENTRY TRANSFERS</b>			
Quantity of book-entry transfers processed (thousands)	2,738	2,725	-0.47
Market value of securities transferred (billions of RUB)	67,746	95,885	41.54
<b>CORPORATE ACTIONS PROCESSING</b>			
Quantity of corporate action transactions processed during the year	3,425	4,336	26.60
Quantity of payments (securities principal and interest) processed by NSD as a nominee during the year	24,300	26,854	10.51
<b>PAYING AGENT SERVICES</b>			
Number of funds transfers via NSD as the paying agent (principal repayments and securities income payments) during the year	29,928	41,612	39.04
Amount of funds transfers via NSD as the paying agent (principal repayments and securities income payments) during the year (billions of RUB)	1,331	1,350	1.39



Indicator	01.01.2011	01.01.2012	Increase/decrease, %
<b>NATIONAL NUMBERING AGENCY SERVICES</b>			
Number of ISINs and CFIs assigned on request of market participants during the year	576	995	72.74
Cumulative total number of ISINs and CFIs assigned on request of market participants	5,513	6,508	18.05
<b>ASSISTING MARKET PARTICIPANTS IN QUALIFYING FOREIGN FINANCIAL INSTRUMENTS AS SECURITIES</b>			
Total requests processed from market participants in respect of financial instruments (cumulative total) <sup>4</sup>	45,895	55,504	20.94
<b>FINANCIAL INDICATORS<sup>5</sup></b>			
Net income (millions of RUB)	1,032	2,287	121.61
Total assets (millions of RUB)	75,899	107,731	41.94
Shareholders' Equity (millions of RUB)	7,868	6,055	-23.04 <sup>6</sup>
Capital Adequacy Ratio (N1 ratio), %	100.8	51.9	
Liquid assets maturing within the next 30 calendar days divided by total liabilities (N15 ratio), %	108.5	102.5	

<sup>1</sup> Based on the number of agreements concluded.

<sup>2</sup> Securities accounts of all types: owner account, securities depository account, account agent's account, and issuer account.

<sup>3</sup> The value of equities and units of mutual funds is calculated based on their market value, while the bonds' value is measured at their nominal value.

<sup>4</sup> Including requests submitted under the agreements in relation to assistance in assigning securities codes.

<sup>5</sup> The indicators have been calculated in accordance with Instructive Regulation of the Bank of Russia dated 8 October 2008 No. 2089-U "On the Procedure for the Preparation of Annual Reports by Credit Institutions".

<sup>6</sup> The reduction in the shareholders' equity was due to the dividend payment made in 2011 in respect of NSD's shares.



## SETTLEMENT AND SAFEKEEPING SERVICES

### Securities Safekeeping

NSD is Russia's largest securities depository in terms of market value of securities held on deposit.

In 2011, the total value of securities held in participants' securities accounts grew 5.45 percent and exceeded RUB 8 trillion<sup>7</sup>. This insignificant annual increase in the value of securities serviced by NSD was due to the crisis situation on the financial markets — over the reporting year, the MICEX Index fell 16.9 percent. While the number of Russian securities serviced by NSD grew 27.12 percent, their market value declined by 9.10 percent.

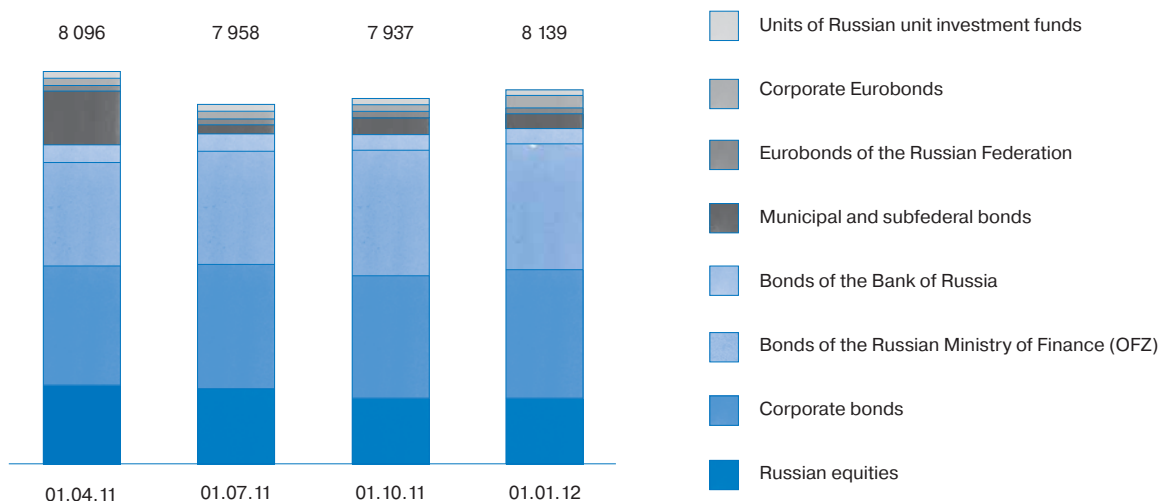
The total quantity of securities held in the participants' securities accounts rose in 2011 by 27.08 percent to 2,562 billion.

Over the last year, the number of serviced securities issues and the number of issuers maintaining securities in accounts with NSD grew 28.30 percent and 30.79 percent, respectively.

As of 1 January 2012, NSD provided services in respect of 4,193 securities issues of 2,060 issuers.

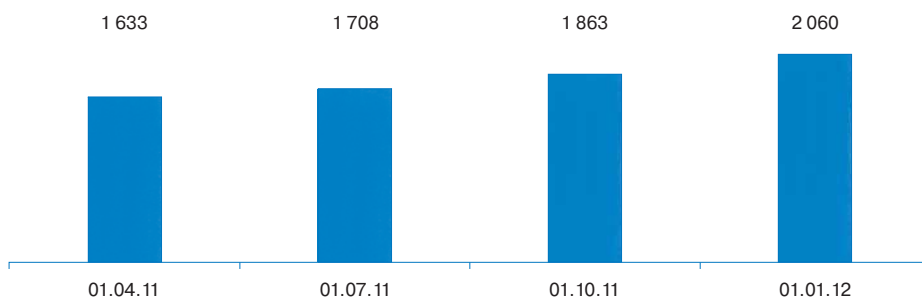
In 2011, NSD continued its drive to expand the list of foreign securities accepted for servicing by the securities depository. Over the year, the number of foreign ETF units increased 29-fold, the number of depository-eligible issues of foreign issuers grew ninefold, while the number of corporate Eurobond issues and the number of depositary receipts rose by 83.22 percent and 64 percent, respectively.

Value of securities held (billions of RUB)\*



\* The data for shares and fund units is based on their market value, while the bond value is based on their nominal value.

Number of issuers whose securities are accepted for servicing



<sup>7</sup> The value of shares and units of mutual funds is calculated based on their market value, while the bonds' value is calculated at their nominal value.

Thus, the share of foreign securities serviced by NSD increased twofold on 2010 and made 22 percent of the total quantity of securities serviced by NSD.

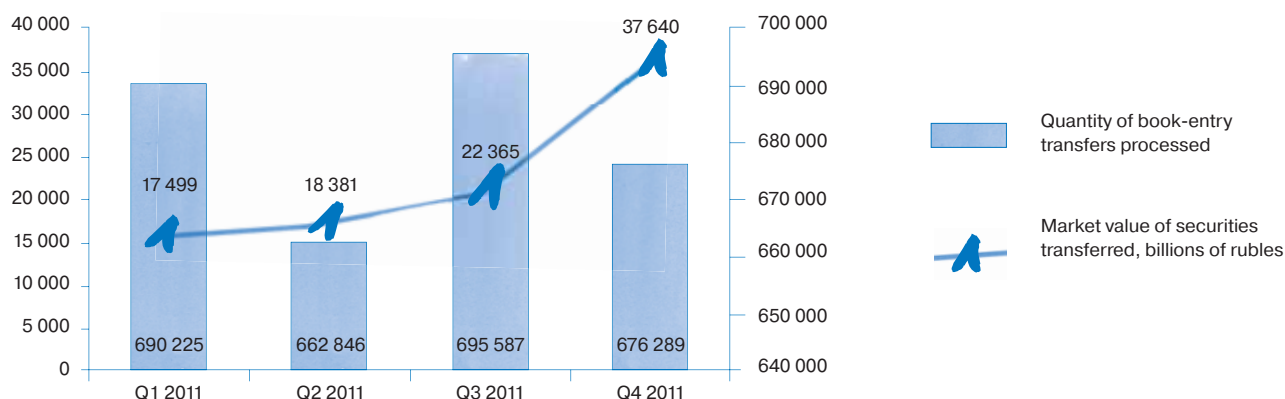
### On-Exchange and OTC Transactions

During 2011, NSD processed 2,725,000 depository transactions, with the market value of securities transferred on its books of record making RUB 95,885 billion, a 41.54 percent increase year-on-year.

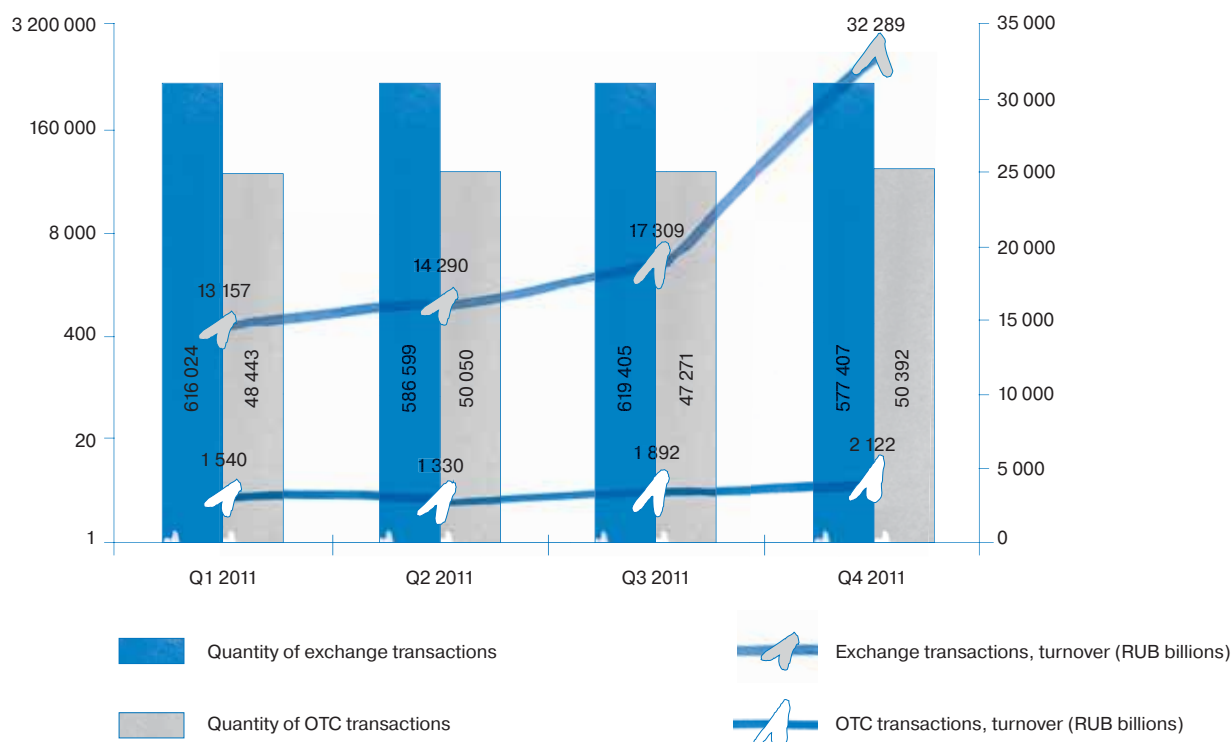
Below are the details of the Depository's transactions processed in 2011:

- on-exchange depository transactions — 2,399,400;
- over-the-counter transactions – 196,200; and
- other transactions (transactions within one account (attachments, pledges), transactions within issuer accounts, etc.) — 129,400.

### Quantity of depository transactions and securities turnover



### Quantity of exchange and over-the-counter depository transactions and securities turnover



Over-the-counter depository transactions include internal transfers of securities between NSD's participants, as well as external transfers between NSD's participants and their counterparties maintaining accounts with other settlement institutions (i. e., accounts maintained by registrars or securities depositories).

The OTC depository transactions may settle on a free of payment (FOP) basis or by transferring securities with the control of the cash settlement leg ("delivery versus payment" basis, or "DVP").

### Internal Settlements

In 2011, our customers carried out 58,611 internal transfers at NSD, including:

- 58,377 FOP transactions; and
- 234 DVP transactions.

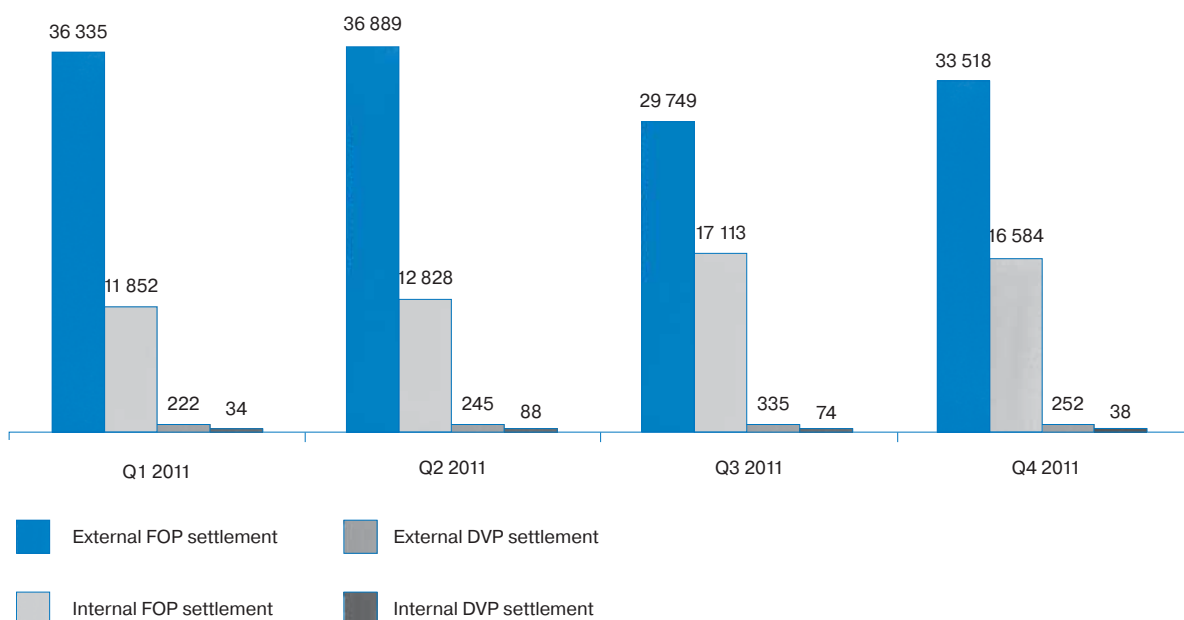
During the year under review, NSD continued its efforts to further improve its settlement services.

In May 2011, NSD's customers were offered an opportunity to settle securities on the DVP basis based on the "single instruction" principle.

Also with effect from May 2011, our customers were given a possibility, when settling securities on a FOP basis, to determine at their sole discretion the details of the counterparty's settlement instructions to be compared (matched) by NSD in the course of settlement:

- based on the automatic matching process, the counterparty's settlement instructions are matched using, among other parameters, two new parameters — "Reference" and "Transaction Date";
- based on the legacy matching procedure, in which participants do not complete the fields "Reference" and "Transaction Date", and one of the key parameters for matching is details of the document which serves as reason for transfer as specified in the field "Reason" for the relevant settlement instruction.

### Quantity of OTC transactions



The new technology which matches settlement instructions using the reference and the transaction date is designed to reduce the counterparty default risk.

### Transactions in Share Registers

In 2011, NSD continued its proactive efforts to increase the number of nominee accounts opened with registrars in the interests of its clients.

During the year, NSD opened nominee accounts with registrars in 241 share registers for corporate issuers and 95 unitholder registers for mutual funds (PIFs). By year-end, the total number of nominee accounts maintained by NSD with registrars reached 1,583, a more than 20 percent increase from the year before.

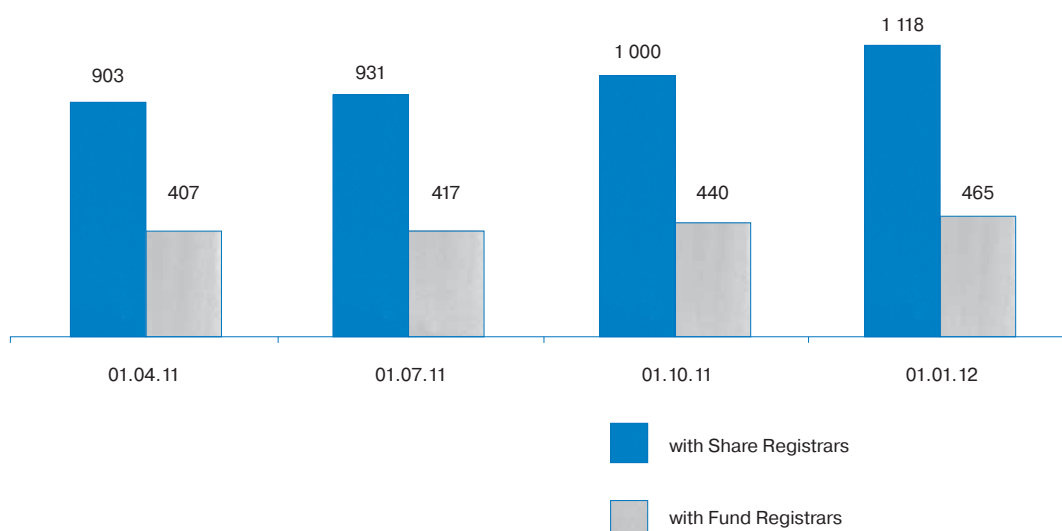
As at end-2011, NSD had interaction with 61 registrars (excluding registrars' branch offices).

As a result of the efforts undertaken by NSD in 2011 to promote broader use of EDI in communications with share registrars and mutual funds' registrars, NSD concluded 13 agreements with registrars governing the procedure for the parties' interaction using EDI. Specifically, NSD concluded agreements with Yakutsk Stock Center, Eurasian Registrar, Ediny Registrator CJSC, Partner and other regional and Moscow-based registrars, significantly expanding the geographic scope of its EDI interaction with registrars.

At end-2011, 27 registrars maintaining share registers and 24 registrars maintaining unitholder registers for mutual funds used EDI to communicate with NSD. As a result, EDI transactions accounted for more than 95 percent of all of NSD's transactions in its nominee accounts with registrars processed during 2011.

Seeking to improve the document interchange with customers, NSD launched in 2011 a new technology which includes sending electronic notices to confirm completion of transactions in NSD's accounts with the registrar. Customers may use such messages to complete trade settlement simultaneously with the report on the transaction execution in their securities accounts at NSD, which delivers significant cost and time savings in transaction processing. If necessary, the customer may also ask the registrar to provide a transaction notice in hard copy.

Quantity of NSD's accounts maintained with Registrars



### Transactions with Other Russian Securities Depositories

#### NSD–DCC Bridge Transactions

In 2011, NSD used the NSD–DCC bridge to settle 24,813 transactions worth a total of RUB 2.12 trillion, up 79.66 percent on 2010.

The number of issuers whose securities are eligible for settlement via the NDC–DCC Bridge grew to 200 during the year, with the total number of “Bridge” — eligible securities reaching 313.

#### Speedy Settlement Schemes between NSD and Custodians

Special attention in 2011 was given to improving the Speedy Settlement Schemes (SSS) designed to help clients settle their trades through cross-system securities transfers (without the need to reregister the securities with registrars).

On customers' requests, NSD significantly increased the number of securities issues eligible for settlement via the SSS between NSD and ING BANK (EURASIA) ZAO. As of 1 January 2012, our clients could settle trades in 289 securities issues, compared to 71 issues at end-2010. The list of securities eligible for the SSS settlement between NSD and Citibank was significantly expanded. As at end-2011, there were 289 securities issues that could be transferred using the SSS, as compared to 16 securities included in MICEX Index, which were eligible for the SSS settlement back in 2010.

December 2011 saw the launch of the Speedy Settlement Scheme between NSD and VTB Bank. This SSS has 35 eligible share issues of 27 issuers.

The number of trades settled via the SSS in 2011 was equal to 1,921 transactions worth over RUB 200 billion.

#### Transactions with Other Custodians

In 2011, NSD continued to process its participants' transactions settled by other Russian securities depositories (such as Gazprombank, Sberbank of Russia, and Rosbank). We had 8,055 securities transactions settled worth a total of RUB 281.77 billion.

### Cooperation with the CSDs of the CIS Countries

One of the key areas of NSD's strategic development is operational interaction with the central securities depositories of the CIS countries.

NSD offers its customers depository services, such as safekeeping and recordkeeping in respect of securities issued by issuers based in the CIS countries, with settlements and corporate actions processing for such securities occurring in the accounts opened with the CSDs of the CIS countries that are members of the Association of Eurasian Central Securities Depositories (AECSD).

During 2005 to 2008, NSD opened securities accounts with the Central Securities Depository of the Republic of Kazakhstan (2005), National Depository Center of the Republic of Azerbaijan (2007), and Republican Central Securities Depository of the Republic of Belarus (2008).

Taking into consideration the clients' interest in investing in certain securities issued in the CIS countries, NSD is constantly working to expand the scope of cooperation with the CSDs united under the auspices of the AECSD. The interim result of such cooperation was the agreement to open and maintain a foreign nominee account in the name of NSD with the Central Depository of Armenia, which was signed in Yerevan on 6 October 2011. The agreement will make it possible for NSD participants to deal in securities of Armenian issuers.

Besides, NSD is negotiating with Public Joint Stock Company “National Depository of Ukraine” to establish partnership relations. Execution of the agreement between the securities depositories is scheduled for early 2012.

In order to create for its clients and other participants of the Russian stock market favourable conditions for investing in foreign securities from the CIS countries, NSD is developing services related to processing and information support in respect of foreign securities.

NSD gives special attention to the sections of its website containing information on the CIS central securities depositories. The website visitors now can have access to news, activity reports and regulatory documents governing the circulation of securities in the Republic of Belarus and the Republic of Kazakhstan.

2011 saw the creation of a database containing weekly updated information on issuers and securities of Belarus and Kazakhstan, and an electronic archive including copies of resolutions on securities issues made by Belarus issuers. The database includes data on 1,280 securities issues of 270 issuers. The information is provided based on individual requests from NSD's clients.



### Transactions in International Securities Settlement Systems

The customers' growing appetite for cross-border settlements gave NSD an impulse to develop its settlement services on the international markets.

In 2011, NSD revamped its currency control procedure by shortening the list of documents needed for foreign exchange control in order to be able to settle cross-border trades on a DVP basis; these documents can now be sent by NSD clients electronically through the LUCH system. NSD also started providing tax deduction services in respect of withholding tax in respect of foreign securities.

In order to expand the opportunities for our customers to effect transactions on the international markets, NSD increased the time frame for receipt of free-of-payment (FOP) settlement instructions:

- for transferring securities between accounts maintained at NSD and the recipient of securities at Clearstream/Euroclear (internal settlement):
  - » not later than 3:45pm on the settlement date, in order for an instruction to be included in the main settlement cycle at Clearstream/Euroclear (previously, the deadline was 2:00pm);
  - » not later than 7:30pm on the settlement date, in order for an instruction to be included in the additional processing cycle at Clearstream/Euroclear (previously, the deadline was 4:30pm);
- for securities transfers via the "Clearstream-Euroclear Bridge", between NSD's account and the counterparty's account with Clearstream/Euroclear (the so-called "bridge settlement"):
  - » not later than 2:00pm on the settlement date, in order for the instruction to be included in the main settlement cycle at Clearstream/Euroclear (previously, the deadline was 1:00pm);
  - » not later than 5:00pm on the settlement date, in order for an instruction to be included in the additional processing cycle at Clearstream/Euroclear (previously, the deadline was 3:00pm).

In 2011, the number of trades settled via the correspondent accounts opened by NSD with Clearstream and Euroclear reached 2,430 transactions, up 23.48 percent compared to 2010, including:

- Clearstream: 108 trades settled on a DVP basis and 138 trades on a FOP basis;
- Euroclear: 946 trades settled on a DVP basis and 1,238 trades on a FOP basis.

### Corporate Actions Processing

During 2011, NSD processed 4,336 on its books relating to issuers' corporate actions, up 26.60 percent on 2010, including:

- 3,322 securities entitlement transactions (compiling lists of holders of bearer securities for the purpose of corporate actions relating to P & I payments on bonds and lists of holders of registered securities and unitholders of mutual funds) and 444 global transactions (conversions, redemptions, repurchases, consolidation/cancellation of issues, etc.) in respect of Russian securities;
- 570 transactions to support corporate actions affecting foreign financial instruments, including: 423 corporate actions relating to income payments in respect of foreign securities and 147 other corporate actions, such as absentee voting, participation in extraordinary and annual General Meetings of Shareholders/Bondholders, recertification of securities for securities holders, pari passu rankings of securities, selection of form of dividend payment, Dutch auction, etc.).

### Securities Income Processing

In 2011, NSD, acting as nominee, made 26,854 fund transfers (related to principal and interest), up 10.51 percent on 2010, including:

- 25,877 payments in respect of Russian securities;
- 977 payments in respect of foreign financial instruments.

The total amount of funds transferred through NSD as nominee was:

- payments on Russian securities (corporate and regional bonds, bonds of the Bank of Russia, registered securities (shares and units of investment funds)) in Roubles — RUB 18,880 million;
- payments on foreign financial instruments (Eurobonds, shares and depositary receipts):
  - » payments in Roubles: RUB 3,914 million;
  - » payments in US dollars: USD 548 million;
  - » payments in Euro: EUR 54 million;
  - » payments in Pounds Sterling: GBP 3,700.

In 2011, the Federal Service for Financial Markets of Russia adopted a law and regulations altering the procedure for paying interest on bonds represented by global notes safekept at NSD which were assigned a state registration number/an identification number after 1 January 2012, and on all federal government bonds represented by global certificates held at NSD on a mandatory basis, regardless of the registration date of such issues:

- Federal Law of 3 June 2011 No. 122-FZ On Making Amendments to Federal Law "On Securities Market" and Articles 214.1 and 310 Part Two of the Tax Code of the Russian Federation;
- Order of the FSFM of Russia dated 20 October 2011 No. 11-52/pz-n On Approving the Regulation on Requirements to the Procedure, Time and Scope of Disclosure (Provision) of Information on Securities Income Distributions by the Depository Safekeeping Securities on a Mandatory Centralized Basis.

In this connection, in 2011, NSD developed a new procedure for cooperation with issuers and participants in respect of such payments.

In order to comply with the requirements to the procedure, time and scope of disclosure of information regarding the distribution of income on issue-grade securities with required centralized safekeeping at NSD, the Depository concluded an agreement with an information agency to publish information on the payments made by NSD on the agency's website updated in real time.

#### Shareholder/Proxy Voting Services

In 2011, NSD provided support to its customers holding Russian Depository Receipts (RDR) issued by Sberbank of Russia in respect of United Company RUSAL Plc to participate in the General Meetings of RDR holders held on 23 June 2011 and 28 October 2011. Pursuant to the agreement concluded with Sberbank, NSD received and processed the RDR holders' voting instructions and provided Sberbank with aggregated voting data on each item of business of the meeting.

#### Corporate Actions Processing in Respect of Reorganizations

2011 saw large-scale reorganizations of Russia's major issuers.

For instance, in April 2011, NSD provided support to the reorganization of OJSC "Rostelecom". OJSC "Rostelecom" was reorganized through merger of Central Telecommunications Company (Centertelecom), Sibirtelecom, Far-Eastern Telecommunication Company, VolgaTelecom, North-West Telecom, Uralsvyazinform, Southern Telecommunications Company, and Dagsvyazinform with and into Rostelecom. In the course of the reorganization, NSD provided information support and consulting services. NSD completed, within the required time frame, the securities processing relating to the merger: the merging companies' bonds were exchanged for ("converted into") OJSC "Rostelecom" bonds and the companies' share issues were exchanged for additional ordinary shares in OJSC "Rostelecom". In the course of the merger, NSD processed placements of about 30 bond issues and additional shares in OJSC "Rostelecom".

Also in April 2011, NSD provided support in the course of the merger of JSC "COMSTAR-UTS" with and into MTS OJSC.

Furthermore, in connection with issuers' reorganizations, NSD carried out conversions of Rosnanotech bonds into RUSNANO bonds, and conversion of OGK-6's ordinary shares and bonds 6 into the respective securities of OGK-2, etc.

#### Assisting Securities Holders in Claiming Tax Benefits

During the reporting year, NSD processed and forwarded to the issuers or issuers' paying agents about 4,500 sets of documents received from the beneficial owners claiming tax relief on their income distributions, a 80 percent increase on the 2010 figure.

NSD in 2011 launched a service to assist customers in reducing the withholding tax rate on income from foreign securities. The first country for whose securities such service was provided was the United States of America. NSD opened and certified an additional account with Clearstream, and during the year, NSD frequently assisted its customers in applying a reduced tax rate on income from the US securities held in accounts with NSD.

### Information Services Related to Corporate Actions

NSD significantly expanded the scope of its information services offered in relation to corporate action processing for Russian and foreign securities.

NSD's website went live with the Depository Information Service Center ("DISC") which contains data on the NSD-eligible securities, securities issuers, registrars and authorized depositories, as well as issuers' corporate actions and other information of interest to its customers.

In order to improve the services delivered to its customers, NSD in 2011 upgraded the software which automatically circulates urgent updates to participants containing information on securities, corporate actions and other information via its EDI system.

Last year, as many as 15,479 information items were posted on NSD's website, containing news on securities, corporate actions and other information relevant to the participants, which represents an increase of 25.24 percent compared to 2010.

NSD in 2011 started to offer information services tailored to meet the customers' specific needs, and concluded services agreements to supply participants and news agencies with information on issuers and their securities, shareholder meetings and dividend information.

In 2011, NSD and the Interfax Group signed a Letter of Intent to create a joint system to disclose information on issuers and Russian and foreign securities. The creation of the joint information system will make it easier for securities market participants and other stakeholders to receive any information they need. This marks an important milestone in the development of a single source of publicly available information about the stock market, securities, and corporate actions in Russia.

### CASH SETTLEMENTS

#### Settlement of Trades on the MICEX-RTS Markets

The total value of cash settlements processed through the trading accounts to support trading on the MICEX-RTS stock exchange markets during the reporting year reached RUB 150,710 billion, including:

- on the equities market: RUB 81,330 billion (an increase of 31 percent compared to 2010);
- on the government securities market: RUB 29,915 billion (an increase of 49.74 percent compared to 2010);
- on the derivatives market — RUB 1,637 billion (a decrease of 25.96 percent compared to 2010).

The turnover of funds in the bank account of Bank "National Clearing Centre" CJSC used in the settlement of trades on the MICEX-RTS foreign exchange market reached RUB 37,828 billion, up 6.51 percent on 2010.

On 1 November 2011, as part of the project "Transfer of Clearing from MICEX to NCC and Introduction of CCP for Fully Pre-Funded Trade Settlement on T+0", NSD launched interaction with NCC, which acts as a clearing house processing the cash settlement leg of transactions made on the MICEX-RTS Stock Market.

Beginning in November 2011, NSD started the project "Processing of Basket Repos on the SPCEX" to provide cash settlement of repo transactions made on the SPCEX. The transactions made on the SPCEX are peculiar in that they are based on the repo technique using a collateral basket. Since the launch of the project, NSD processed RUB 502 million in funds on its trading accounts in connection with the SPCEX repo transactions.

As part of the integration process in the MICEX-RTS Group and reorganization of the derivatives market, NSD started in December 2011 to act as a settlement provider offering cash settlement services on the derivatives market in cooperation with the RTS Clearing Center, acting as a clearing house.

### Transactions Via the Bank of Russia's Payment Network

The turnover of funds in NSD's correspondent account with the Bank of Russia in 2011 grew 58.23 percent year-on-year to RUB 255,588 billion. The number of payments made using NSD's account with the Bank of Russia increased by 27.4 percent on 2010 to 683,940 payments.

The turnover of funds in NSD's correspondent account with the Bank of Russia processed via the Bank of Russia's Banking Electronic Speedy Payment (BESP) System grew in 2011 by 82.57 percent year-on-year to RUB 162,259 billion. The number of payments settled using NSD's account with the Bank of Russia via the BESP System, increased 3.8-fold compared to 2010, reaching 82,555 payments. Such a dramatic increase in the volume of payments processed through the BESP System due to the technological upgrade of NSD's software and improvements in customer service in relation to payments using the system.

### Support of the Bank of Russia's Deposit Transactions

Transactions intended to raise funds from Russian banks in the currency of the Russian Federation and have them deposited with the Bank of Russia are a special type of deposit transactions used as an instrument to regulate liquidity in the banking sector as part of the state's monetary and credit policy, which helps ensure stability of the Russian Rouble.

During the reporting period, there was a significant increase in the volume of customers' deposits made with the Bank of Russia. The turnover of cash in the clients' bank accounts with NSD in connection with such deposits of funds with the Bank of Russia grew 1.9-fold on 2010 to RUB 17,149 billion.

### Processing of Vnesheconombank's Deposit Auction Transactions

The volume of rouble settlements processed in the course of deposit auctions held by Vnesheconombank, the state management company managing pension savings, doubled to RUB 126 billion from 2010.

Deposit transactions are concluded through the trading venue — MICEX-RTS — with settlements processed in the participants' bank accounts maintained with NSD.

### Transactions in NOSTRO Accounts in Foreign Currencies

The turnover of funds settled through NSD's correspondent accounts maintained with foreign financial organizations and ICSDs in support of the settlement of on-exchange and OTC-exchange transactions in 2011 was as follows:

- in US dollars: USD 15,732 million; (a 9 percent increase on 2010); and
- in Euro: EUR 625 million (a 6 percent increase on 2010).

NSD in August 2011 opened a correspondent account in Chinese Yuan (CNY) with the Moscow-based Industrial and Commercial Bank of China. This step will enable NSD's customers to open bank accounts in CNY and receive securities income into those accounts.

### Transactions in International Securities Settlement Systems

The volume of cash settlements in Russian Roubles and foreign currencies processed on a DVP basis through the International Central Securities Depositories — Euroclear and Clearstream — in 2011 grew 51.7 percent on 2010 to RUB 144 billion.

As part of the efforts to develop the DVP settlement services through the ICSDs, NSD in May 2011 introduced a new service offering, i. e., rouble cash settlement through Euroclear and Clearstream. The volume of cash settled since the launch of the project made RUB 553 million.

In the course of implementation of the project "Building a New Depository Link for NSD to Interact with ICSDs", NSD in October 2011 switched to using NSD's full omnibus accounts as part of the single account used for securities and cash settlements at Euroclear and Clearstream.

## ISSUER SERVICES

### Authorized Depository Services

Acting as the securities depository authorized to service bond issues ("authorized depository"), NSD interacts with Russia's major bond issuers, such as the Ministry of Finance of the Russian Federation, the Bank of Russia, the Moscow City Government, Vnesheconombank (VEB), JSC "GAZPROM", etc. Among the issuers served by NSD are the constituent entities of the Russian Federation and municipalities, natural monopolies and state corporations, Russia's major companies and organizations, as well as foreign issuers whose securities are registered in accordance with the Russian laws.

Over the year, 844 issuers entered into issuer account agreements with NSD, an increase of 0.48% on 2010.

In 2011, NSD, acting as the authorized depository for the Ministry of Finance of the Russian Federation, accepted for safekeeping the global certificates of 14 issues of the federal loan bonds (OFZ) worth more than RUB 1.3 trillion. By the year end, the number of OFZ issues serviced by NSD increased to 199.

During the year, NSD, being the depository which holds the global certificates of the Bank of Russia's bonds on a mandatory centralized basis, provided depository services for more than RUB 3 trillion of bond issues.

In 2011, NSD received and approved issuance-related documents for 248 issues of corporate and regional bonds in bearer form having a total par value of RUB 992 billion, the global certificates for which will be safekept at NSD on a mandatory centralized basis.

During the reporting year, NSD accepted for centralized safekeeping (i. e., provided support to offerings of, and subsequent trading in) 216 issues of corporate and regional bonds to the total value of RUB 1,037 billion.

As at 1 January 2012, NSD, acting as an authorized depository, handled 820 corporate and regional bond issues (maturing after 31 December 2011) issued by 366 issuers with an aggregate nominal value of RUB 4,032 billion. Thus, NSD safekeeps the global certificates and maintains ownership records for about 99 percent (in terms of par value) of all Russian corporate bonds and over 99 percent of all subfederal and municipal (regional) debt issues.

Based on the results of tenders and electronic auctions held by the constituent entities of the Russian Federation, municipalities, and natural monopolies, NSD in 2011 was awarded 17 contracts to provide depository and paying agent services.

During the year under review, NSD continued to accept for servicing and support new bond offerings and trading on the stock exchange market (the bond market segment has seen rapid development since 2008). During 2011, NSD accepted for servicing 90 exchange-traded bond issues.

In November 2011, NSD provided services for the first bond issue made by a foreign corporate issuer, Uranium One Inc. (ISIN RU000A0JRTS1). The company's RUB 16.5 billion bond offering was launched on the MICEX Stock Exchange on 7 December 2011.

In 2011, NSD also provided services for bond issues (with global certificates safekept at NSD) of the international financial organizations, the European Bank for Reconstruction and Development and the Eurasian Development Bank.

During the reporting year, NSD developed the regulatory and technological framework to support the delivery of depository services in the Russian Federation for foreign issuers' securities whose personal law<sup>8</sup> does not allow their certificates to be safekept on a centralized basis in the territory of the Russian Federation.

Moreover, NSD developed in 2011 a new service intended for issuers and other types of customers, i. e., securities settlement on a delivery versus delivery (DVD) basis, including with the possibility of controlling the cash element of the transaction. Issuers may use this type of transaction to exchange securities of one issue for securities of some other issues, including in the course of bond restructurings.

### Paying Agent Services

NSD continues to occupy a leading position as a paying agent for corporate, subfederal and municipal bonds ("regional bonds"). As at 1 January 2012, on the paying agent market services, NSD accounted for 41.73 percent of the total quantity of corporate and regional bonds in circulation and for 44.54 percent of the number of issuers of corporate and regional bonds.

In 2011, NSD, acting as a paying agent, accepted 110 bond issues of 56 issuers for servicing. As of 1 January 2012, the number of bond issues handled by NSD as a paying agent reached 338, while the number of bond issuers served amounted to 159.

The number of fund transfers via NSD as a paying agent (principal repayments and securities income payments) during 2011 grew 39.04 percent on 2010 to 41,612 payments. The total amount of P & I payments distributed grew 1.39 percent to RUB 1,350 billion.

<sup>8</sup> The Personal Law of a legal entity is the law of the country in which the legal entity is incorporated (Article 1202 of the Russian Civil Code).



In light of the amendments to the Russian laws (which affect the bond issues which were allocated an identifier after 1 January 2012 and all federal government securities with global certificates safekept in the depository, regardless of their issue registration date)<sup>9</sup>, effective from 1 January 2012, the function for making payments in respect of securities became an integral part of the depository services that the authorized securities depository provides to its customers.

As a measure to ensure compliance with the laws, NSD produced in 2011 its internal regulations and contractual base in relation to services involving distribution of payments to participants received on bonds whose global certificates are safekept by NSD.

## **NSD'S ACTIVITIES AS A MEMBER OF THE ASSOCIATION OF NATIONAL NUMBERING AGENCIES (ANNA)**

### **NSD as Russia's National Numbering Agency**

NSD has been a member of the Association of National Numbering Agencies (ANNA) and acted in the role of the National Numbering Agency (NNA) for Russia since 1999<sup>10</sup>.

As the National Numbering Agency (NNA) for Russia, NSD assigns in accordance with the ISO 6166 and ISO 10962 standards ISIN and CFI codes for securities of Russian issuers and other financial instruments issued or registered in the Russian Federation.

NSD submits information on the securities codes allocated by it to the ANNA's global database and keeps current the information on the ISIN and CFI codes submitted to the database.

In 2011, NSD assigned ISIN and CFI codes to 995 Russian financial instruments, an increase of 72.74 percent compared to 2010. For 409 Russian securities, the ISIN and CFI codes were cancelled in connection with the cancellation of securities issues and redemption of securities.

The total number of ISIN and CFI codes assigned by NSD as of 1 January 2012 reached 6,508.

<sup>9</sup> Federal Law of 3 June 2011 No. 122-FZ «On Making Amendments to Federal Law «On Securities Market» and Articles 214.1 and 310 Part Two of the Tax Code of the Russian Federation»;

<sup>10</sup> NSD is NDC's universal legal successor which had been a member of ANNA since 1999.

### Assistance in Qualifying Foreign Financial Instruments as Securities

Since 2008, NSD, as a member of the Association of National Numbering Agencies (ANNA), has been providing assistance to stock market participants in recognizing foreign financial instruments qualifying as securities in accordance with the *Regulations on Qualification of Foreign Financial Instruments as Securities* approved by Order of the FSFM of Russia dated 23 October 2007 No. 07–105/pz-n (“Qualification Regulations”).

These services include:

- providing, upon request, information on the ISIN and CFI codes assigned to foreign financial instruments;
- assisting in assigning ISIN and CFI codes, where no such codes have been previously issued; and
- verifying the values of the previously assigned CFI codes in order to determine whether they are in compliance with the terms of issue of the foreign security concerned.

As a result of processing these requests and monitoring information on ISIN and CFI codes of foreign financial instruments, NSD during 2011 provided securities market participants with information on 20,737 instruments, of which:

- 2,176 instruments did not have CFI codes;
- 568 instruments did not have ISIN codes;
- 597 instruments whose CFI codes do not meet the requirements of the Qualification Regulations and the ISO 10962 Standard; and
- 17,396 instruments whose CFI codes meet the qualification requirements.

Over the entire period of assisting securities market participants in the qualification of foreign financial instruments as securities, NSD processed requests for ISIN and CFI information in respect of 55,504 foreign financial instruments, including requests for information from different market participants relating to the same instrument.

### NSD as the Substitute Numbering Agency for the CIS Countries

Since 2007 NSD has been authorized by the ANNA to act as the Substitute Numbering Agency (SNA) for the countries of the Commonwealth of Independent States (CIS), which do not have their own National Numbering Agencies or in which the existing NNAs are unable, whether temporarily or permanently, to perform the entire range of functions the NNA is expected to perform.

As the SNA for the CIS countries, NSD is entitled to provide the following services:

- assign ISIN and CFI codes to financial instruments issued by issuers of the country concerned, and submission of such codes to the ANNA's global database;
- represent the country concerned at ANNA General Meetings;
- provide advisory assistance in setting up the country's NNA, etc.

In 2011, the ANNA Board of Directors authorized NSD to act as the SNA for the Republic of Belarus and the Republic of Kazakhstan. These decisions were taken with the support of the countries' regulators and NNAs in order to implement ANNA's key concept, i. e., ensuring uninterrupted assignment of international codes, which provides that an SNA may exist not only in those countries where there is no NNA, but also to assist the existing NNA as a standby agency.

Previously, NSD was assigned the functions of the SNA for the Republic of Uzbekistan, which does not have its own NNA.



## TECHNOLOGICAL UPGRADE AND DEVELOPMENT OF HARDWARE AND SOFTWARE SYSTEMS

The key tasks set before NSD's IT divisions are to ensure timely and uninterrupted settlement of our customers' transactions and automate acceptance, processing and transmission of information through implementing new information technologies, and increase the performance and reliability of the software and hardware system used at NSD.

In light of the ever-increasing demands from stock exchanges, regulators and customers, NSD pursued vigorous efforts in 2011 to expand the functional capabilities of the software used in the depository and settlement systems, as well as the EDI system.

### Depository and Corporate Systems

In early 2011, NSD went live with the specialized depository system, Alameda, designed to automate depository transactions. This event marked the completion by NSD of its software upgrade project.

The Alameda hardware and software system is based on the Oracle database management system (DBMS) and has better performance in terms of reliability, scalability and speed of operation as compared to the previously used Head Depository System (SGD) application software. The new software complex reduced the processing time for many transactions by several times.

The Alameda system is based on the access control principles which take into account the Russian and international information security standards. Thus, there is separate access for performing the administrative and operational functions, which represents a significant improvement. User authentication is effected using electronic signature cryptographic keys.

Throughout 2011, development work was undertaken to further improve the Alameda system and ensure a closer integration of different systems. Most services were implemented in accordance with the integrated automation principles, i. e., with the information transferred between the systems from the point of input to all points of use. Alterations were made to the Alameda system, the Corporate Database and the EDI system in sync to ensure an integrated automated process.

Participants may now have several depository codes linked to their BIC (i. e., SWIFT code) and indicate those codes in the field "Message initiator" when sending instructions to NSD via SWIFT.



During the reporting year, NSD implemented technical support for DVP settlements in Russian Roubles via Clearstream and Euroclear. DVP settlements may now be effected based on a "single instruction".

In accordance with the ISO 15022 standard, NSD implemented securities transfers on a Delivery Versus Delivery (DVD) basis, with an option of cash settlement, and a batch processing technology for securities settlement instructions.

In 2011, NSD upgraded the software needed to implement the MICEX-RTS Group's project to move clearing on the securities market to the National Clearing Centre and introduce a Central Counterparty.

Also, NSD introduced information services which its customers need to conclude OTC repo transactions (settlement repos).

Some enhancements were made to NSD's software intended to improve corporate action processing and generation of security holder lists.

In 2011, NSD created a functionality to support settlement of direct repo transactions made with the Bank of Russia on the SPCEX.

Adjustments were made to the algorithm for direct circulation of information messages to participants.

Last year saw an upgrade of the DISC information service system. The company went live with Version 1.1 of the system, implemented web-based services and screen forms for securities and entities in the information and search system on NSD's website.

NSD broadened the list of securities for which it provides automated valuation based on the data feeds from various sources.

New versions of the ISO 15022 formats were implemented for message types MT540 to MT543, and MT549.

Special attention was given to developing the functionality to monitor the system's performance capacity and notifying of situations requiring human intervention. Steps were taken to enhance the procedures to monitor the EDI system operation. Developers increased the number and detailing of warnings given in the course of EDI interaction with registrars.

During the year under review, NSD also gave much attention to automating the performance of a tax agent's role.

In late 2011, NSD supported the liberalization of the government securities market and ceased to perform the functions of the Technical Support Center for the Dealer's Sub-depository (TCCDS).

During the year, we successfully completed about 50 different tasks, which helped enhance automation of NSD's units.

NSD prepared in 2011 a catalogue of its IT-services and conducted a survey of satisfaction levels of customers and NSD's units in respect of those services. The survey suggested that the IT-services are of a relatively high quality, the customer satisfaction score making 4.53, and company units' satisfaction score making 4.41 out of 5. Also, the survey objectively demonstrated that NSD's electronic settlement system and billing system have a significant potential for improvement of the quality of IT-services. Work was carried out to integrate the clients' profiles recorded in the depository and settlement system and to implement a common approach to information input.

NSD developed a functionality to receive automated data feeds from the ICSDs containing securities information in accordance with the original list of ISIN codes.

Vigorous efforts were undertaken to upgrade the local workstation of NSD's EDI system — the LUCH software. Last year saw the release of eight versions featuring new functions. The LUCH upgrade was implemented in parallel with the development of the depository system's functionalities. In 2011, the transitional period was completed and the LUCH was migrated to MS SQL-Server. The work done in that respect helped overcome the database size constraints existing in MS Access and improve the reliability of the local documents archive and accelerate the application's operation. Another feature implemented in the LUCH software was the functionality to generate lists of securityholders to be sent to registrars.

### Automated Banking System

In 2011, NSD continued operation of CFT's Automated Banking System (ABS), launched in 2008, which runs under Oracle Database 10g. Based on requests from NSD's departments, work was undertaken to develop and modify more than 100 local operations and representations, including 40 new ones, designed to automate the processing, preparation and analysis of information and optimise users' work.

By end of Q4 2010, adjustments had been made to the requirements for the implemented project where by separate accounts are maintained for VAT in order to be able to offset the output VAT and input VAT. In accordance with the new requirements, modifications were made to the structure and rules for maintaining separate VAT accounting in the CFT-Bank Automated Banking System.

As part of the process to create a common repository for data of the MICEX-RTS Group and use it in the implementation of systems for generating managerial and financial accounts and budgeting, NSD developed, tested and put into commercial operation the system for automatic download of approved data from the CFT-Bank system.

NSD developed, tested and put into service a new bilateral gateway to transfer data between NSD's banking and billing systems to reflect the settlements with registrars on its books of account.

In accordance with Regulations on the Procedure for a Bank Giving Electronic Notice to the Tax Authority of the Opening or Closure of an Account and Changes in the Account Details No. 311-P and the requirements made by NSD's units, the developers of the CFT-Bank system developed, tested and implemented the functionality to maintain records and communicate in electronic format with tax authorities with a view to providing information on the opening and closing of accounts and changing their details.

The company developed, tested and put into parallel operation a new bilateral gateway to transfer data between the CFT-Bank system and the Automated Electronic Settlement System (AESS) being implemented at NSD. The new gateway made it possible to exchange information on securities conversions/exchanges and cash settlements.

A statement of work was prepared for a project to automate inventory tracking and management for NSD's fixed assets using RFID tags. The project is scheduled for completion in H1 2012.

### Electronic Settlement System

The Electronic Settlement System (ESS) is NSD's principal software and hardware system operating in an online mode and supporting automated cash settlement of customers' regulated market and OTC trades.

As of 1 January 2012, 776 customers of NSD used interactive access to the ESS from the "ESS Client", "Internet Bank-Client", and "Intranet Bank-Client" remote workstations. The most popular workstations are "Internet Bank-Client" and "Intranet Bank-Client", which are installed and used by 552 customers, and some customers use several different types of client workstations, depending on their structure and technologies.

The quantity of documents processed annually in the ESS is constantly growing and as at the end of the reporting period exceeded 2.3 million documents.

In 2011, NSD upgraded or developed several dozen new forms and procedures which helped expand the functional capabilities, improve the software characteristics and offer the customers additional options for interacting with NSD. The most important of them are as follows:

- DVP Settlement in Russian Roubles via Euroclear and Clearstream;
- settlement of direct repo transactions made with the Bank of Russia on the SPCEX;
- non-batch technology for transmitting registers of payments to the ICI of the Bank of Russia;
- a funds transfer through the BESP system is completed in real time immediately upon receipt of an ED206 message "Confirmation of Debit/Credit" from the BESP system;
- settlement of trades through the International Central Securities Depositories using the new omnibus accounts with Euroclear and Clearstream;
- it is possible to set an overdraft limit for NSD's correspondent account with the Bank of Russia;
- transfer of the securities clearing function from MISEX to the National Clearing Center (NCC);
- a project has been implemented to improve the cash leg of settlement on the government securities market and equity market.

Also, during the reporting period, our developers formulated, tested and implemented over 20 tasks to upgrade the ESS designed to minimize the operational risks and streamline the transactions processed on an everyday basis.

Work was continued to develop and implement the Automated Electronic Settlement System (AESS); during 2011, the following tasks were accomplished:

- at the beginning of the year, NSD held training sessions on the AESS operation for its key personnel;
- for NSD's and MICEX-RTS' key employees, delivery and acceptance testing was held in accordance with the AESS testing program and methodology;
- based on the results of the testing, which revealed certain deviations from the approved requirements and specifications, efforts were undertaken to rework the software which was installed as interim versions of AESS on NSD's equipment;
- in Q4 2011, the AESS was launched in parallel with the existing ESS system.

According to the plan approved for 2012, it is expected that the AESS will be put into commercial operation. This will mark a major milestone in further improving and expanding the range of services provided by NSD in the banking services segment of the MICEX-RTS Group.

#### Interaction with the Interregional Centre of Informatization (ICI) of the Bank of Russia

NSD's efficient software and hardware complex provides support to interaction with the Interregional Centre of Informatization (ICI) of the Bank of Russia by processing settlement transactions, as well as conducting pilot tests of new software versions and streamlining messaging technologies. In 2011, NSD implemented a technology for automatic reservation of data channels in the ICI network designed to enhance the availability of its services.

NSD proactively assists the Bank of Russia in modernizing technologies and software by participating in projects to implement new services supporting electronic exchange of payment information, and taking part in testing new versions of internal automation solutions.

During 2011, NSD continued its participation in the project to test the automated system BESP-SWIFT Gateway allowing direct settlement participants of the settlements to interact with the BESP through SWIFT. Based on the results of testing, NSD submitted to the Bank of Russia's ICI a package of proposals intended to improve and optimise the BESP-SWIFT Gateway and introduce messaging among BESP participants using the FileAct SWIFT services using the Unified Formats of Electronic Banking Messages (UFEBM).

#### SWIFT Terminal

During 2011, the availability of the main and standby systems was regularly tested both on a scheduled basis with the participation of NSD's customers, and with automated switching in the event of disruptions in the main data center's access channels. This helped ensure business continuity both for the MICEX-RTS Group's principal business, and for nearly 70 customers connected via NSD's SWIFT Terminal to SWIFT services.

In connection with the migration to the new version SWIFT Net 7.0, NSD carried out an upgrade of the entire hardware and software complex. New servers were installed, configured and tested; additional equipment was installed and the software applications were upgraded, — these measures will contribute to a higher level of security and reliability of SWIFT's services.

As part of the SWIFT Net 7.0 migration, NSD provided its users and customers with the new SWIFT service, Alliance Web Platform, which helps manage various SWIFT applications in a centralized manner using the thin client architecture. The new workstation, SWIFT Alliance Messenger, opens in the Internet Explorer and offers a complete functionality needed to work with the FIN-messages, as well as the RMA application which makes it possible for users to independently exchange authorisations.

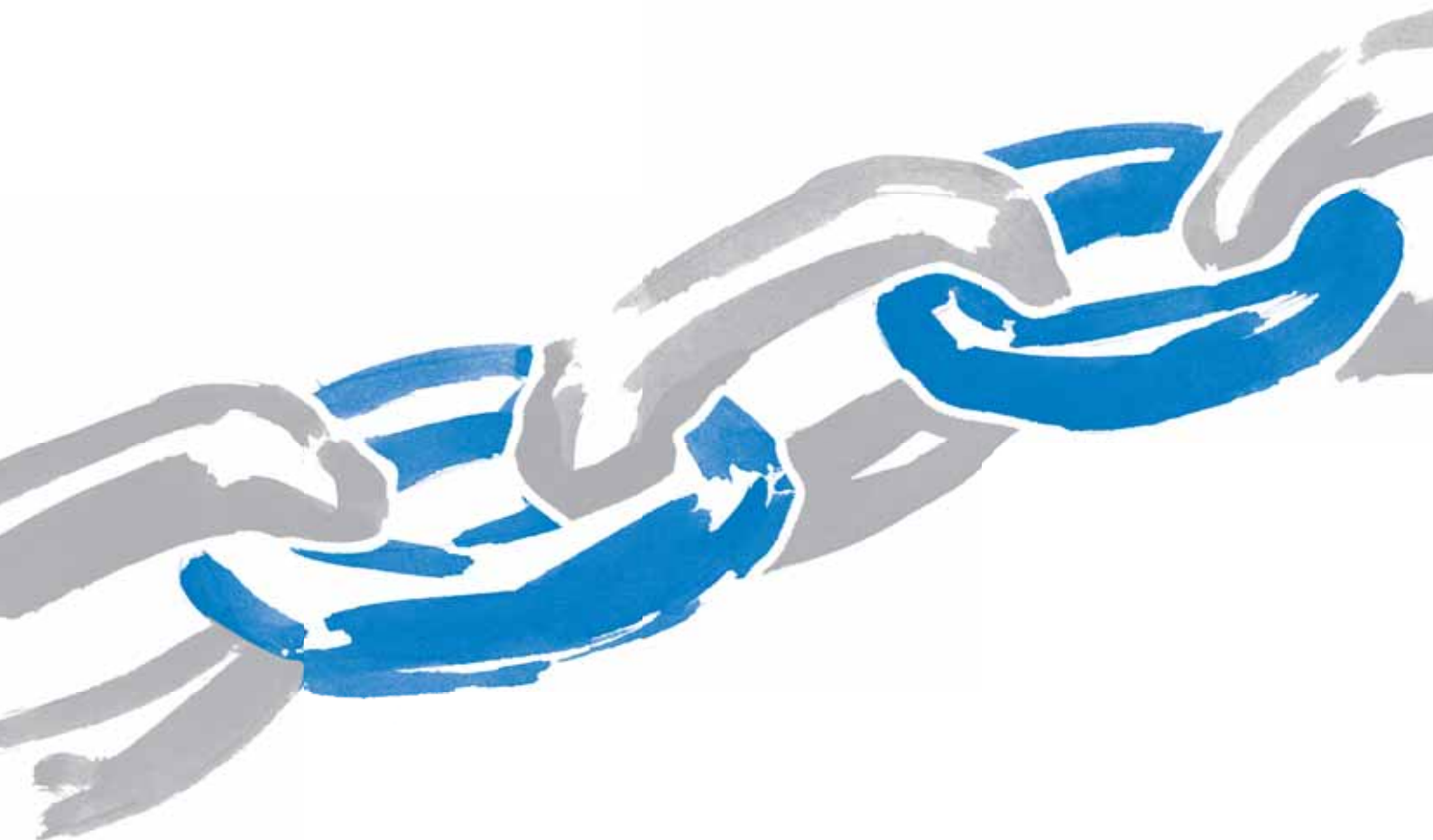
Deployment of these new systems offers customers broader opportunities to access those services and makes it much simpler for them to connect, configure and administer the systems.

#### Database Management Systems

In 2011, NSD went live with the multifunctional monitoring and management solution, Oracle Enterprise Manager Grid Control 11g, which significantly increases the reliability and quality of management of the software and hardware complexes running on the Oracle platform throughout the enterprise.



## CORPORATE GOVERNANCE



### CORPORATE GOVERNANCE SYSTEM AT NSD

#### Principles of Corporate Governance

The corporate governance at NSD covers the overall management of the company's activities undertaken by the General Meeting of Shareholders and NSD's Supervisory Board, as well as the system of relations with NSD's governing bodies and other stakeholders (i. e., employees, customers, partners, counterparties, banking regulators and supervisory authorities, and government authorities) in:

- formulating the strategic objectives for NSD's activities and creating an efficient governance system;
- creating labour incentives to ensure that NSD's governing bodies and employees perform all acts needed to achieve its strategic objectives;
- achieving a balance among the interests of shareholders, members of the NSD's Supervisory Board and executive bodies, and other stakeholders;
- ensuring compliance with the laws of the Russian Federation, NSD's Charter and internal regulations.

NSD adheres to the main principles of corporate governance formulated by the Organization for Economic Cooperation and Development (OECD) and reflected in the Shareholders' Agreement with respect to NSD, under which the corporate governance system should:

- ensure the equitable treatment of shareholders;
- recognize the rights of stakeholders established by law;
- ensure that timely and accurate disclosure is made on all material matters regarding NSD, including the financial situation, performance, ownership, and governance of the company;



- ensure strategic guidance and effective monitoring of NSD's management by the General Meeting of Shareholders and the NSD's Supervisory Board.

To assess its corporate governance, NSD uses a special "corporate governance quality index" developed based on the questionnaire recommended by the Bank of Russia in its Letter dated 7 February 2007 No. 11-T. The current index score for the purpose of internal self-assessment is calculated on a quarterly basis.

As a measure to implement the best practices in forming and organizing the activities of the Supervisory Board and the Executive Board at NSD, and further to the proposal of Chairman of the Nomination and Remuneration Committee A. V. Ikonnikov and Chairman of the NSD Executive Board Eddie Astanin, NSD invited Mr. Pierre Francotte, who had been the CEO at Euroclear for ten years and has extensive experience in corporate governance, to participate in the process.

Based on his experience in forming and running the governing bodies at Euroclear, Mr. Francotte prepared his assessments and recommendations in relation to NSD's corporate governance, as well as recommendations as to the competencies requirements for members of NSD's Supervisory Board and Executive Board, the rotation of members of the Supervisory Board, and peculiarities of managing NSD during the period of integration with other companies.

### Shareholders

NSD's majority shareholder is MICEX-RTS (99.997%). The full list of NSD's shareholders is set out in the table below.

On 30 June 2011, the Shareholders' Agreement in relation to NSD was executed which sets down the understandings on the core principles of corporate governance at NSD that were achieved among the shareholders at the time of its establishment.

The execution of the Shareholders' Agreement accompanied with amendments to NSD's Charter and other regulations secured for the users the right to manage the Depository and ensured a balance between the interests of NSD's majority and minority shareholders. Under the Shareholders' Agreement, up to five major users of NSD's services may become its shareholders and become entitled to participate in managing the company.

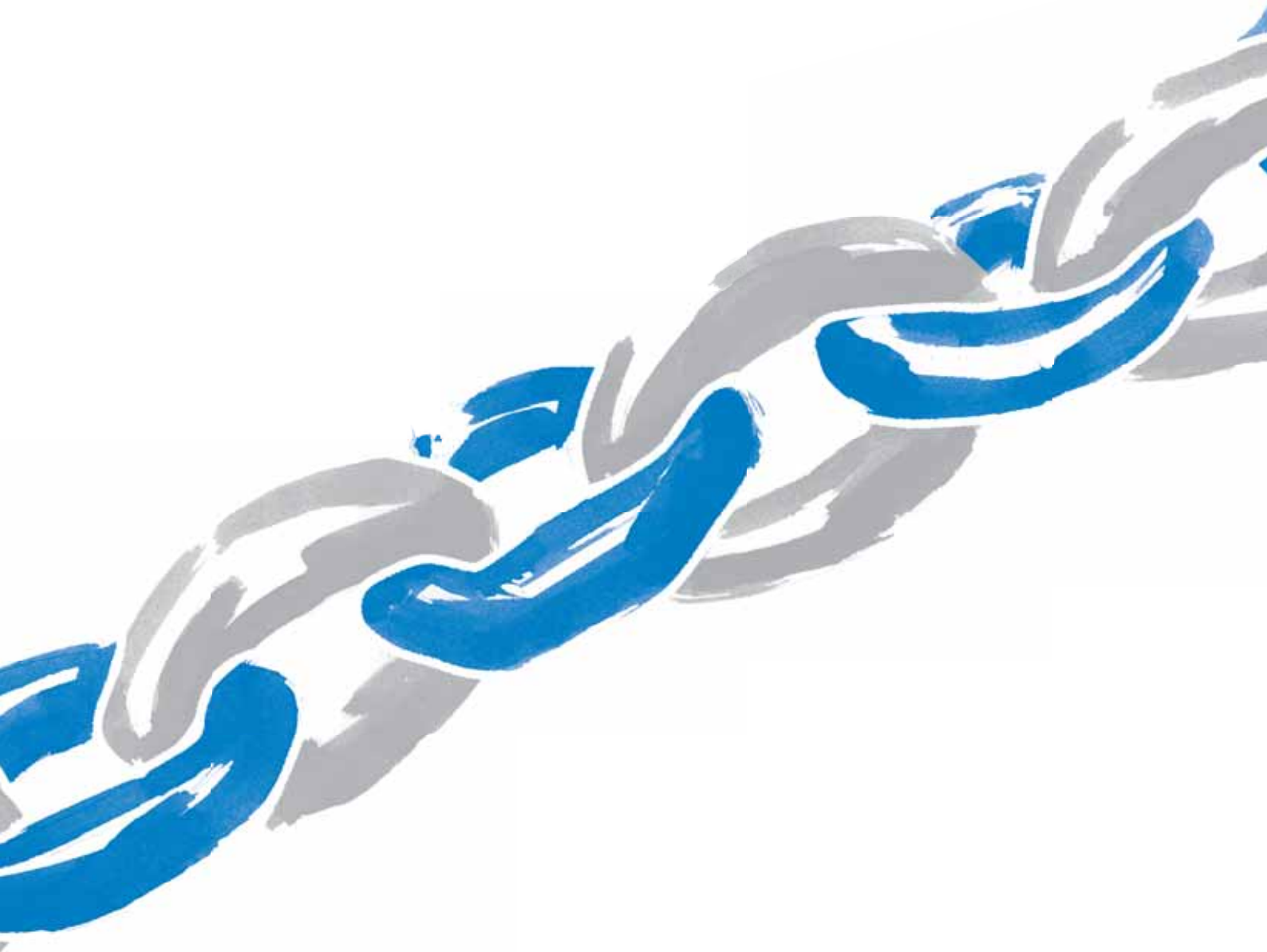
The broad representation of securities market participants in NSD's capital (based on the 'one participant, one share' principle) gives the users of NSD's services an opportunity to develop its product range and tariff model, i. e., establish control over the price and quality characteristics of NSD's services.

The Shareholders' Agreement demonstrates that the MICEX-RTS Group is willing to create a corporate governance system that is transparent to its participants and represents one of the phases of preparing NSD for the role of the CSD.

## List of NSD Shareholders as of 1 January 2012

1	Open Joint-Stock Company "MICEX-RTS"
2	Gazprombank (Open Joint-Stock Company)
3	Limited Liability Company "Deutsche Bank"
4	ING BANK (EURASIA) ZAO (Closed Joint-Stock Company)
5	Joint Stock Commercial Bank — Bank of Moscow (open joint-stock company)
6	Joint Stock Commercial Bank "ROSBANK" (Open joint-stock company)
7	CentroCredit Joint Stock Commercial Bank
8	VTB Bank (open joint-stock company)
9	State Corporation "Bank for Development and Foreign Economic Activities" (Vnesheconombank)
10	ALOR-INVEST Ltd.
11	CLOSED JOINT-STOCK COMPANY "BANK CREDIT SUISSE (MOSCOW) "
12	Closed Joint-Stock Company Raiffeisenbank
13	Stock Company Saint Petersburg Currency Exchange
14	Closed Joint Stock Company UniCredit Bank
15	KIT Finance Capital (Limited liability company)
16	Commercial Bank "J. P. Morgan Bank International" (Limited Liability Company)
17	Limited Liability Company "ATON"
18	BrokerCreditService Limited
19	"OOO Morgan Stanley Bank"
20	Open Joint-Stock Company "ALFA-BANK"
21	"Bank "Saint Petersburg" Open Joint-Stock Company
22	OTKRITIE Brokerage house Joint Stock Company
23	Open Joint-Stock Company "NOMOS-BANK"
24	"Samara Currency InterBank Exchange" Open-Stock Company
25	Sberbank of Russia
26	Open Joint-Stock Company "Sotsinvestbank"
27	INFINITUM Asset Services
28	Closed Joint Stock Investment Company "Troika Dialog"
29	Shlotburg Capital LLC
30	"METROPOL" Investment Financial Company Ltd."
31	Renaissance Broker Limited
32	MDM Bank, Open Joint Stock Company





### Registrar

The Registrar maintaining the share register of NSD is Registrar Society "STATUS" Closed Joint-Stock Company.

### Corporate Governance Structure

NSD's governing bodies are as follows:

- the General Meeting of Shareholders;
- the Supervisory Board;
- the Chairman of the Executive Board and the Executive Board.

NSD's corporate governance structure is shown in the figure.

### General Meeting of Shareholders

The General Meeting of Shareholders is NSD's superior management body. General Meetings are convened at least once a year.

The procedures of the General Meeting of Shareholders of NSD are governed by the Regulations on the General Meeting of Shareholders approved by the General Meeting of NSD Shareholders.

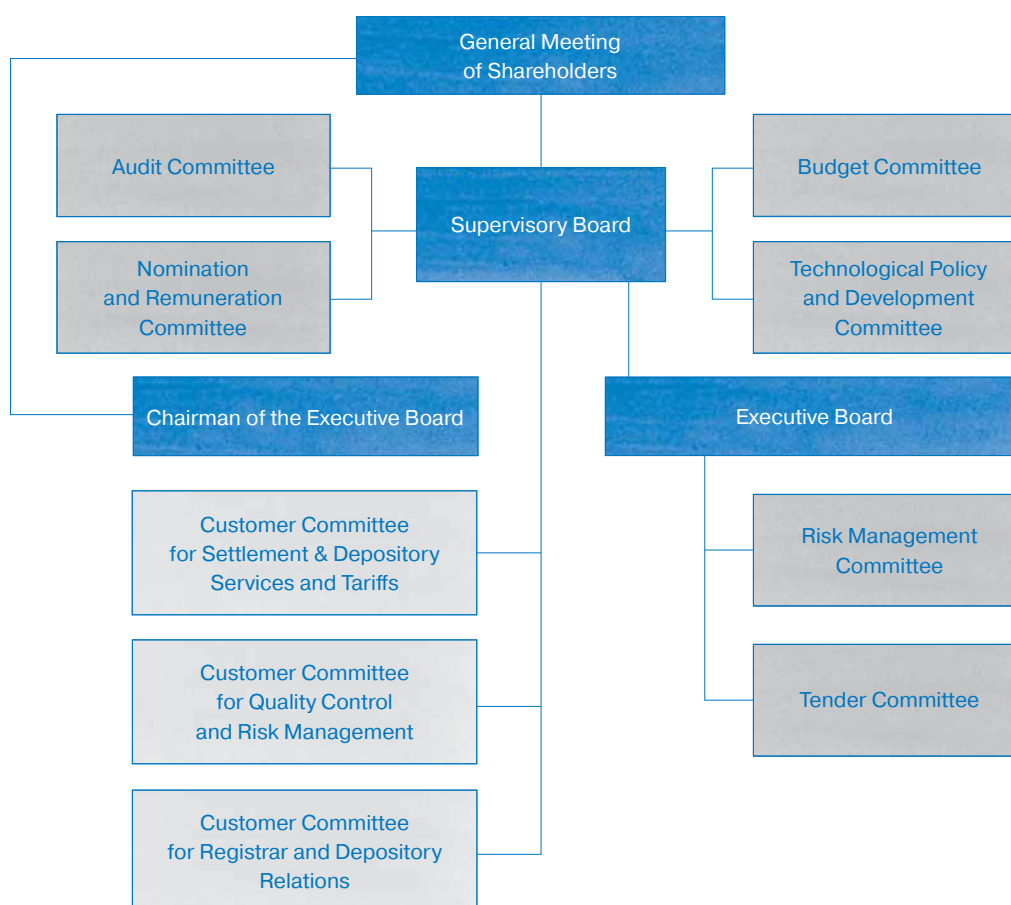
### Supervisory Board

The Supervisory Board is NSD's superior management body exercising management functions during the periods between General Meetings. Supervisory Board members are elected by the General Meeting of Shareholders for the period until the next annual General Meeting.

The activities of the NSD's Supervisory Board are governed by the Regulations on the Supervisory Board, which is adopted by the General Meeting of NSD Shareholders.

Information on the members of the NSD's Supervisory Board (as of 26 April 2011) elected by the General Meeting of Shareholders held on 29 June 2010 (Minutes No. 25):

### Corporate Governance Structure



**1. Ruben Aganbegyan**

Date of birth: 14 February 1972

Education:

University: Moscow State Law Academy  
Graduated in 1995

Employment:

Company name: MICEX-RTS  
Title: President, Chief Executive Officer,  
member of the Board of Directors

**2. Eddie Astanin**

Date of birth: 16 December 1961

Education:

University: Mozhaisky Military Engineering Institute  
Graduated in 1984  
University: Institute for Further Training and Qualification  
Upgrade in Finance and Banking at the Finance Academy  
attached to the Government of the Russian Federation  
Graduated in 1996

Employment:

Company name: National Settlement Depository  
Title: Chairman of the Executive Board

**3. Mikhail Bratanov**

Date of birth: 16 May 1973

Education:

University: Moscow State Institute for Electronic Technology  
Technical University)  
Graduated in 1996

Employment:

Company name: ROSBANK (OJSC JSCB)  
Title: Director of Depository

**4. Yury Dubin**

Date of birth: 19 October 1967

Education:

University: Lomonosov Moscow State University  
Graduated in 1994  
University: IE Business School, Madrid, Spain  
Graduated in 2009

Employment:

Company name: Sberbank of Russia  
Title: Director of Depository

**5. Alexander Ikonnikov (Independent Director)**

Date of birth: 05 April 1971

Education:

University: Gubkin Moscow Oil and Gas University  
Graduated in 1993

Employment:

Company name: Board Solutions  
Title: General Director

**6. Sergey Lykov**

Date of birth: 12 December 1952

Education:

University: Moscow Finance Institute  
Graduated in 1975

Employment:

Company name: Vnesheconombank  
Title: member of the Management Board, Deputy Chairman,  
Vnesheconombank

**7. Natalia Sidorova**

Date of birth: 22 June 1968

Education:

University: Moscow State Linguistic University  
Graduated in 1991

Employment:

ING BANK EURASIA (ZAO)  
Title: Head of Custody

**8. Sergey Sukhinin**

Date of birth: 17 April 1963

Education:

University: Moscow Finance Institute  
Graduated in 1985

Employment:

Company name: National Settlement Depository  
Title: Deputy Chairman of the Executive Board

**9. Vladimir Tatsiy**

Date of birth: 05 December 1960

Education:

University: Moscow Energy Institute  
Graduated in 1984

Employment:

Company name: GPB (OJSC)  
Title: First Vice President



**10. Nadezhda Ushakova**

Date of birth: 06 February 1967

Education:

University: State Finance Academy

Graduated in 1988

Employment:

Company name: JSC VTB Bank

Title: Senior Vice President, Head of Custody Operations

**11. Tatiana Fomina**

Date of birth: 26 December 1968

Education:

University: Ordzhonikidze Moscow Aviation Institute

Graduated in 1991

Employment:

Company name: ZAO UniCredit Bank

Title: Deputy Head of the Financial Market Transactions Division of the Banking Transactions Department

**12. Tatyana Chepeleva**

Date of birth: 01 July 1976

Education:

University: Moscow University of Consumer Cooperation

Graduated in 1999

Employment:

Company name: Moscow Representative Office,

OTKRITIE Securities Limited (UK).

Title: Head of the Representative Office

**13. Alexander Scheglov**

Date of birth: 30 June 1968

Education:

University: Moscow Institute of Physics and Technology (MIPT)

Graduated in 1991

University: Post-Graduate Course at the Moscow Institute of Physics and Technology (MIPT)

Graduated in 1994

Employment:

Company name: Open Joint Stock Company Investment

Company "ZERICH Capital Management"

Title: Director General

The members of the Supervisory Board do not hold any shares in NSD.

Changes in the composition of the NSD's Supervisory Board took place at the General Meeting of NSD Shareholders held on 26 June 2011 (Minutes No. 28).

Information on the members of the NSD's Supervisory Board (as of 1 January 2012) elected by the General Meeting of NSD Shareholders held on 26 June 2011 (Minutes No. 28):

**1. Ruben Aganbegyan**

Date of birth: 14 February 1972

Education:

University: Moscow State Law Academy

Graduated in 1995

Employment:

Company name: MICEX-RTS

Title: President and Chief Executive Officer, member of the Board of Directors

**2. Eddie Astanin**

Date of birth: 16 December 1961

Education:

University: Mozhaisky Military Engineering Institute

Graduated in 1984

University: Institute for Further Training and Qualification Upgrade in Finance and Banking at the Finance Academy attached to the Government of the Russian Federation

Graduated in 1996

Employment:

Company name: National Settlement Depository

Title: Chairman of the Executive Board

**3. Mikhail Bratanov**

Date of birth: 16 May 1973

Education:

University: Moscow State Institute for Electronic Technology (Technical University)

Graduated in 1996

Employment:

Company name: ROSBANK (OJSC JSCB)

Title: Director of the Depository Department

**4. Anna Vyshlova**

Date of birth: 31 December 1973

Education:

University: Lomonosov Moscow State University

Graduated in 1996

University: Higher School of Economics

Graduated in 2008

Employment:

Company name: Renaissance Broker LLC

Title: Chief Operational Officer

**5. Oleg Vyugin**

Date of birth: 29 July 1952

Education:

University: Lomonosov Moscow State University

Graduated in 1974

University: Post graduate course,

Lomonosov Moscow State University

Graduated in 1978

Employment:

Company name: State University —

Higher School of Economics

Title: Professor, Stock Markets and Investment Market Chair

**6. Bella Zlatkis**

Date of birth: 05 July 1948

Education:

University: Moscow Finance Institute

Graduated in 1970

University: Post-graduate course, Moscow Finance Institute

Graduated in 1978

Employment:

Company name: Sberbank of Russia

Title: Deputy Chairman of the Management Board

**7. Maria Ivanova**

Date of birth: 29 June 1972

Education:

University: ECSSAC, Liege, Belgium

Graduated in 1996

Employment:

Company name: Deutsche Bank Ltd.

Title: Head of Domestic Custody Services

**8. Alexander Ikonnikov (Independent Director)**

Date of birth: 05 April 1971

Education:

University: Gubkin Moscow Oil and Gas University

Graduated in 1993

Employment:

Company name: Board Solutions

Title: General Director

**9. Irina Ikonnikova**

Date of birth: 07 October 1971

Education:

University: Lomonosov Moscow State University

Graduated in 1995

Employment:

Company name: CJSC Investment Company “Troika Dialog”

Title: President

**10. Sergey Lykov**

Date of birth: 12 December 1952

Education:

University: Moscow Finance Institute

Graduated in 1975

Employment:

Company name: Vnesheconombank

Title: member of the Management Board, Deputy Chairman

**11. Vladimir Tatsiy**

Date of birth: 05 December 1960

Education:

University: Moscow Energy Institute

Graduated in 1984

Employment:

Company name: GPB (OJSC)

Title: First Vice President

**12. Nadezhda Ushakova**

Date of birth: 06 February 1967

Education:

University: State Finance Academy

Graduated in 1988

Employment:

Company name: JSC VTB Bank

Title: Senior Vice President, Head of Depository

**13. Alexey Fedotov**

Date of birth: 16 July 1965

Education:

University: Moscow Institute of Radio Engineering,

Electronics and Automation

Graduated in 1986

Employment:

Company name: ZAO Citibank

Title: Head of Securities and Funds Service

**14. Tatiana Fomina**

Date of birth: 26 December 1968

Education:

University: Ordzhonikidze Moscow Aviation Institute

Graduated in 1991

Employment:

Company name: ZAO UniCredit Bank

Title: Deputy Head of the Financial Market Transactions

Division of the Banking Transactions Department

**15. Alexander Scheglov**

Date of birth: 30 June 1968

Education:

University: Moscow Institute of Physics and Technology (MIPT)

Graduated in 1991

University: Post-Graduate Course, Moscow Institute of Physics and Technology (MIPT)

Graduated in 1994

Employment:

Company name: Open Joint Stock Company Investment

Company "ZERICH Capital Management"

Title: Director General

The members of the Supervisory Board do not hold any shares in NSD.

There four committees attached to the NSD's Supervisory Board:

- Budget Committee;
- Audit Committee;
- Nomination and Remuneration Committee; and
- Technological Policy and Development Committee.

**Budget Committee**

The goal of the Budget Committee is to improve the efficiency of the NSD's Supervisory Board by ensuring proper control over the way funds are received and spent at NSD. The Budget Committee conducts a detailed analysis of the matters relating to financial planning and managing financial resources at NSD and prepares them for submission to the NSD's Supervisory Board.

The Committee is headed by Vadim Subbotin, Vice President and member of the Executive Board, MICEX-RTS.

In 2011, the Budget Committee held 11 meetings and considered the following matters:

- execution of the NSD Budget of revenues, expenses and revenue and the NSD Budget of capital investments, and making adjustments to them;
- allocation of profit (including the dividend payment) based on the FY2010 results;
- the NSD fees;
- financing the purchase by NSD of the land plot underlying the building at 12 Spartakovskaya Street, Moscow.

### Audit Committee

The goal of the Audit Committee is to ensure the efficient operation of the NSD's Supervisory Board in deciding matters relating to internal controls, external audits and risk management at NSD.

The Committee is headed by Yury Dubin, Director of Depository, Sberbank of Russia.

In 2011, the Audit Committee held 12 meetings and considered, among others, the following items of business:

- reviewing the NSD annual report and annual financial statements for 2010;
- reviewing the NSD Budget execution reports;
- reviewing the reports made by the NSD's Internal Control Division and NSD Controller in connection with NSD's activities as a professional securities market participant;
- approving the independent auditors and determining the amount of fees to be paid by NSD for the auditors' services in respect of 2011;
- building the risk management system and risk insurance at NSD;
- reviewing the results of the information security audit conducted at NSD;
- considering the policies, regulations and guidance on risk management and business continuity at NSD; and
- considering amendments to NSD's Portfolio Investment Declaration.

### Nomination and Remuneration Committee

The Nomination and Remuneration Committee is entrusted with ensuring efficient operation of the NSD's Supervisory Board in relation to selection, appraisal, and remuneration of the NSD officers, including the members of the Supervisory Board, the Chairman of the Executive Board, and the members of the Executive Board, as well as the members of NSD's Internal Audit Commission.

The Committee is headed by Alexander Ikonnikov, Chairman of the Supervisory Board, Independent Directors Association.

During 2011, the Committee held 10 meetings and considered the following items of business:

- preparing proposals and recommendations for the NSD's Supervisory Board on selecting nominees for the Supervisory Board to be voted at the annual General Meeting of the NSD shareholders in 2011;
- preparing recommendations on paying remunerations to the members of the Supervisory Board, Internal Audit Commission and the members of the Executive Board of NSD based on the 2010 results; and
- analysing the organizational structure of the company emerging as a result of the integration of NSD, DCC and RTS Settlement Chamber.

### Technological Policy and Development Committee

The Technological Policy and Development Committee is to ensure efficient work of the NSD's Supervisory Board in addressing issues relating to the technical policy, IT and software development at NSD.

The Committee is headed by Nikolay Degtyarev, Deputy Director, Head of Department for Provision of Operations and Technologies in the Directorate for Provision of Audit of Operations in Financial Markets, Bank of Russia.

In 2011, the Committee held 8 meetings and considered, among other things, the following matters:

- the Projects "Automated Electronic Settlement System (AESS)", "Pricing Center", "DISC information system";
- results of the questionnaire survey on the results of implementing the Alameda platform and its influence on the depository processing efficiency at NSD;
- developing the NSD's IT Strategy;
- developing a project management approach to planning IT work at NSD;
- single client workstation;
- recommendations on implementing XBRL for the NSD managers;
- reviewing the results of the information security audit conducted at NSD;
- setting up the Architectural Committee at NSD; and
- the technological platform for the consolidated securities depository in the course of integration of NSD, DCC and RTS Settlement Chamber.

### Chairman of the Executive Board

The Chairman of the Executive Board is the sole executive body of NSD. The Chairman of the Executive Board is appointed by the General Meeting of Shareholders for a term of three years.

Information on the Chairman of NSD Executive Board:

#### Eddie Astanin

Date of birth: 16 December 1961

Education:

University: Mozhaisky Military Engineering Institute  
Graduated in 1984

University: Institute for Further Training and Qualification  
Upgrade in Finance and Banking at the Finance Academy  
attached to the Government of the Russian Federation  
Graduated in 1996

The Chairman of the Executive Board did not hold any shares in NSD.

### Executive Board

The Executive Board is a collective executive body at NSD. Members of the Executive Board are appointed by the NSD's Supervisory Board.

The activities of the NSD Executive Board are governed by the Regulations on the Executive Board approved by the General Meeting of NSD Shareholders.

Information on the members of the NSD Executive Board (as of 1 January 2011):

#### 1. Eddie Astanin, Chairman of the Executive Board

Date of birth: 16 December 1961

Education:

University: Mozhaisky Military Engineering Institute  
Graduated in 1984

University: Institute for Further Training and Qualification  
Upgrade in Finance and Banking at the Finance Academy  
attached to the Government of the Russian Federation  
Graduated in 1996

#### 2. Sergey Sukhinin, Deputy Chairman of the Executive Board (until 25 April 2011)

Date of birth: 17 April 1963

Education:

University: Moscow Finance Institute  
Graduated in 1985

#### 3. Ekaterina Demushkina, Deputy Chairman of the Executive Board (until 1 August 2011)

Date of birth: 09 November 1969

Education:

University: Lomonosov Moscow State University  
Graduated in 1992

University: Russian Foreign Trade Academy of the Ministry of Economic Development of the Russian Federation  
Graduated in 2006

The members of the Executive Board did not hold any shares in NSD.

Information on the members of the NSD Executive Board (as of 1 January 2012):

**1. Eddie Astanin, Chairman of the Executive Board**

Date of birth: 16 December 1961

Education:

University: Mozhaisky Military Engineering Institute  
Graduated in 1984

University: Institute for Further Training and Qualification  
Upgrade in Finance and Banking at the Finance Academy  
attached to the Government of the Russian Federation  
Graduated in 1996

**2. Stepan Tomlyanovich, Deputy Chairman of the Executive Board**

Date of birth: 13 September 1969

Education:

University: Finance Academy under the Government of the  
Russian Federation  
Graduated in 1993

**3. Irina Veremeyenko, Chief Accountant,  
Director of Accounting and Reporting Department**

Date of birth: 24 May 1965

Education:

University: Moscow Finance Institute  
Graduated in 1987

The members of the Executive Board did not hold any shares in NSD.

There are two committees attached to the NSD Executive Board:

- Risk Management Committee; and
- Tender Committee.

There is the Architectural Committee at NSD reporting to the Chairman of the Executive Board.

**Risk Management Committee**

The Risk Management Committee assists the NSD Executive Board in managing corporate risks. The Committee's activities are aimed at improving and strengthening the risk management system at NSD and ensuring that prompt action is taken in response to critical risks.

The Committee is headed by Maria Krasnova, Deputy Chairman of the Executive Board, NSD.

The Committee was established on 11 November 2011. In 2011, the Committee held two meetings and considered the following matters:

- the procedure for the preparation, approval and implementation of business process descriptions at NSD;
- examination of the use of automated information systems, and the procedure for software development, installation and updates;
- reliability of the NSD safekeeping and settlement complex.



#### Tender Committee

The key tasks set for the Tender Committee are to ensure most favourable terms for procuring goods, services and works needed for NSD's operations, and minimizing the risk of default by NSD's contractors.

The Committee is headed by Zhanna Klimova, Head of Financial and Economic Operations Accounting, NSD.

The Committee was established on 28 October 2011. In 2011, the Committee held one meeting and considered the following matters:

- selecting a software developer to build a financial monitoring solution as part of the project "Statistical Data Repository";
- concluding an Oracle support contract for Oracle software;
- selecting a contractor to provide consulting services on improving the risk management system;
- selecting a contractor to award a contract to implement an information security event monitoring (pilot project).

#### Architectural Committee

The key goals set for the Architectural Committee are as follows:

- preparing proposals designed to secure uninterrupted and reliable operation of the electronic systems and IT infrastructure which are paramount to NSD's business;
- preparing proposals to ensure that NSD has competitive advantages and leadership through developing and controlling the relevant IT strategy, implementing and using the cutting-edge, promising settlement, safekeeping and clearing information technologies designed to cope with the strategic, tactical and operational goals set for NSD.

The Committee is headed by Nikolay Degtyarev, Deputy Director, Head of Department for Provision of Operations and Technologies in the Directorate for Provision of Audit of Operations in Financial Markets, Bank of Russia.

The Committee was established on 26 October 2011. In 2011, the Committee held one meeting and considered the following matters:

- status of the project "Automated Electronic Settlement System (AESS)"; and
- feasibility of using the BI technologies at NSD.



### Internal Audit Commission

The Internal Audit Commission is the controlling body engaged in internal financial and business control at NSD. Members of the Internal Audit Commission are elected at the Annual General Meeting of NSD Shareholders. The members of NSD's Internal Audit Commission are listed in the table.

The activities of NSD's Internal Audit Commission are governed by the Regulations on the Internal Audit Commission approved by the General Meeting of NSD Shareholders.

### Members of NSD's Internal Audit Commission (as of 1 January 2012)

1	Olga Gordiyenko	Chief Accountant, MICEX-RTS
2	Irina Ryazhskikh	Director of Budgeting and Managerial Accounting Department, MICEX-RTS
3	Vladimir Sukhachev	Head of Internal Audit Service, member of the Audit Committee under the Board of Directors, MICEX-RTS

### Customer committees

Customer committees are NSD's permanent consultative bodies. Members of such committees are elected by the NSD's Supervisory Board.

The committees' activities are governed by the Regulations on the relevant customer committee approved by the NSD's Supervisory Board.

### Quality and Risks Committee

The key role of the Quality and Risks Committee is to prepare recommendations for NSD's Supervisory Board and executive bodies on the following issues:

- NSD's customer policy, in particular, acceptance for servicing and principles of providing services to different types of customers;
- NSD's marketing policy in promoting its services;
- improving the customer services and ensuring control of their quality, including in the area of software, hardware and technological support of NSD's activities;
- improving the services and facilities provided by NSD;
- reducing NSD's operational risks in delivering services;
- informing NSD's customers of new services and facilities to be implemented, and supporting the promotion of such services on the financial services market.

The Committee is headed by Yury Dubin, Director of Depository, Sberbank of Russia.

In 2011, the Committee held five meetings and considered, among others, the following matters:

- arranging the integration process of NSD, DCC and RTS Settlement Chamber;
- the goals and plans to develop the operational risk management system at NSD;
- considering the results of the customer satisfaction survey in relation to NSD's IT services and the results of the questionnaire survey of the Quality and Risks Committee members on the project "Principles for the Creation of a Pre-Matching Centre";
- NSD's top priority projects for 2011;
- the possibility of providing a more detailed invoice for NSD's services;
- ensuring electronic interchange between registrars and securities depositories that are NSD's customers;
- DVP settlement in roubles and foreign currencies; and
- drafting the Regulation on the Marketing Policy of NSD.

#### Customer Committee for Settlement & Depository Services and Tariffs

The main functions of the Customer Committee for Settlement & Depository Services and Tariffs are as follows:

- liaising with financial market participants in order to study the customers' needs and analyse the new market trends;
- preparing recommendations for NSD's Supervisory Board and executive bodies on the following issues:
  - » developing the depository and settlement products;
  - » developing and unifying the fee model;
  - » setting and/or raising the fees for the safekeeping services provided by NSD;
  - » the marketing policy in the area of developing competitive services; and
  - » other questions directly relating to the NSD development strategy.

The Committee is headed by Tatyana Chepeleva, Director of Projects and Development, OTKRITIE Brokerage House.

In 2011, the Committee held eight meetings and considered, among others, the following matters:

- integration of NSD, DCC and RTS Settlement Chamber: a concept of the product range and fee model for the united securities depository;
- changing the fee schedules for NSD's services;
- NSD's top priority projects for 2011 and reports on their implementation;
- collateral management system;
- DVP settlement in roubles and foreign currencies;
- PVP settlement; and
- drafting the Regulation on the Marketing Policy of NSD.

#### Customer Committee for Registrar and Depository Relations

The key functions of the Customer Committee for Registrar and Depository Relations are as follows:

- providing recommendations to improve the existing methods of interaction between NSD and registrars maintaining share registers/specialized depositories maintaining registers of unitholders of mutual funds;
- preparing proposals to change the existing techniques for the interaction between NSD and registrars, including electronic document interchange;
- making proposals to develop new technologies designed to improve the quality of interaction between NSD and registrars/specialized depositories; and
- handling other issues relating to the Committee's tasks.

The Committee is headed by Natalia Sidorova, Head of Securities Services, ING BANK EURASIA (ZAO).

In 2011, the Committee held two meetings and considered the following matters:

- interaction among NSD, participants and registrars in implementing the Speedy Transfer Scheme;
- need to upgrade NSD's software supporting EDI between securities depositories and registrars.



### Material Aspects of Interaction with the External Auditors

A special committee has been set up to select the independent auditors for the companies of the MICEX-RTS Group for 2011–2013, which held a competitive tender among the 'Big Four' firms. In the course of the tender, the committee assessed the bids made by the audit firms by assigning points using a special methodology. The maximum number of points was received by Ernst & Young Vneshaudit CJSC.

At its meeting held on 22 March 2011, the Audit Committee decided to suggest to the NSD's Supervisory Board that the Annual General Meeting of Shareholders of NSD approve the appointment of Ernst & Young Vneshaudit CJSC as auditors for NSD for the period until the AGM of NSD in 2013.

On 26 April 2011, the General Meeting of NSD Shareholders approved the appointment of Ernst & Young Vneshaudit CJSC to audit the RAS and IFRS for the period until the annual General Meeting of NSD Shareholders in 2012.

Firm name	Ernst & Young Vneshaudit Closed Joint-Stock Company
Abbreviated name	Ernst & Young Vneshaudit CJSC
Place of business	77 Sadovnicheskaya Naberezhnaya, bldg. 1, Moscow 115035
Telephone and fax	Tel.: 755-97-00 Fax: 755-97-01
E-mail:	moscow@ru.ey.com
Audit license number, date of issue and expiry date, or the full name and address of the self-regulatory organization of auditors a member of which is/was the auditor	Self Regulated Organization non-profit partnership «Audit Chamber of Russia» (ACR) Pursuant to the resolution of APR's Board dated 20 May 2009, membership certificate No. 3027. Address: 3/9 Tretiy Syromyatnicheskiy pereulok, bldg. 3, Moscow, 105120.
Financial year for which the auditor conducted an independent audit of the statutory accounting books and financial statements and those in accordance with the IFRS.	2011

Ernst & Young Vneshaudit CJSC is a member of Self Regulated Organization non-profit partnership "Audit Chamber of Russia" ("ACR"). Ernst & Young Vneshaudit CJSC was registered by APC in the register of auditors and audit organizations under registration number 3027 and included in the master copy of the register of auditors and audit organizations, identification number 10301017410.

Ernst & Young Vneshaudit CJSC is authorized under Russian laws to conduct independent audits of accounting, financial statements (accounts) and tax reports at NSD, the financial results for 2011, to audit its internal control system, prepare and present the Auditor's report on the accuracy of NSD's FY2011 financial statements and a detailed information report of the auditors to the NSD executive.

Ernst & Young Vneshaudit CJSC does not have any significant common interests with NSD and the MICEX-RTS Group.

The audit services are provided under an Audit Services Agreement of 24 October 2011 No. GFS-2011–00230. Audit is only intended to express an opinion on the veracity of NSD's financial statements and on whether the accounting records at NSD are maintained in compliance with Russian laws. Veracity means the degree of accuracy of the data contained in the financial statements which enables a user of such financial statements to make conclusions on the basis of its data regarding its business results, financial and property position of NSD, and take decisions based on such conclusions. During the audit period, the auditors also examine the tax accounting books and tax reports filed by NSD in the prescribed forms (i. e., tax returns, calculations of taxes, etc.) and determine whether the tax relief was obtained correctly.

The audit is carried out in several phases:

- Phase 1: audit of the state of accounting and control, account balances, published financial statements and tax filings for the first nine months of 2011;
- Phase 2: audit of the state of accounting and control, account balances, published financial statements and tax filings for the 12 months of 2011; and
- Phase 3: audit of the IFRS financial statements.

For the purposes of conducting an audit, NSD appoints a key person to be in charge of liaising with NSD's divisions and ensure that the information needed for the audit is delivered in a timely fashion.

Based on the results of the audit, the audit firm prepares an Auditor's report and detailed information report.

Under the Audit Services Agreement, the audit firm undertakes to strictly comply with the laws of the Russian Federation and other regulations, acting under Federal Law of 30 December 2008 No. 307-FZ "On Audit Activities" and the Audit Rules (Standards). Furthermore, the audit firm is required to:

- ensure that the documents received by it in the course of audit are kept safe and returned in due course, and that their contents or any other information are not disclosed without NSD's consent, except as provided by the Russian laws;
- if so required by NSD, supply NSD with the necessary information on the requirements of Russian laws relating to the conduct of audits, including tax audits, and references to the regulations on which the auditor's comments and conclusions are based;
- inspect to the full extent the documents on NSD's financial and business activities and the availability of any property recorded in such documents.

If the audit firm discovers any breaches of tax law or any material misstatements in NSD's financial statements or tax reports, the audit firm will bring to the notice of NSD's managers that they may be held liable for such breaches and that it is necessary to alter the financial statements and make adjustments to the tax returns and calculations. If NSD complies with the auditor's recommendations and corrects the financial statements, tax returns and calculations, the audit firm may defend NSD against third parties.

The audit firm determines, at its own discretion, the forms and methods of conducting an audit based on the requirements imposed by Russian laws and regulations, and the specific terms of the audit services agreement.

During the audit period, NSD undertakes that it will make the relevant arrangements and provide assistance to the auditors in order that the financial audit and tax audit are completed in a timely and complete manner. NSD provides the auditor's personnel with all information and documents requested by them which is needed for the audit, and give full clarifications and confirmations on the auditors' requests for information, as well as request any information necessary for the audit from third parties.





### NSD's Interests in Other Entities

The information on NSD's interests in other entities is contained in the tables below.

#### Information on NSD's Interests in Other Entities

Company name	Interest, %
Settlement depository company (Closed Joint Stock Company), SDCO (CJSC)	28.543
Stock company Saint-Petersburg Currency Exchange, SPCEX SC	2.005

#### Information on NSD's Membership in Other Organizations

Entity name	Date joined
Society for Worldwide Interbank Financial Telecommunication, SWIFT	1997
Association of National Numbering Agencies, ANNA	1999
Russian National SWIFT Association, ROSSWIFT	2002
Association of Eurasian Central Securities Depositories, AECSD	2004
European Central Securities Depositories Association, ECSDA	2006
National Securities Market Association, NSMA	2007
Association for Banking Information Security Standards, ABISS	2011

### REPORT OF THE SUPERVISORY BOARD ON NSD'S PERFORMANCE IN KEY AREAS OF BUSINESS

During the year, the Supervisory Board carried out overall management of NSD's operations during the periods between General Meetings of Shareholders.

In 2011, the Supervisory Board held 26 meetings and considered top priority matters of NSD's activities. Among those, the Supervisory Board considered items of business relating to the integration of NSD, DCC, and RTS Settlement Chamber, implementation of key projects and the status of project activities at NSD, as well as risk management, operational performance and development of corporate governance in the Company.

The Supervisory Board took decisions on the key financial and economic issues and business development of the Company, including the following:

- execution of the budget of NSD's revenues, expenses and profit, and the capital expenditure budget for 2011, and making adjustments to them;
- approval of the budget of NSD's revenues, expenses and profit, and the capital expenditure budget for 2012;
- preliminary approval of the Annual Report on NSD's operations in 2010;
- determining the amount of fees to be paid to NSD's independent auditors;
- making changes to the NSD Tariff;
- assessment of the impact the Alameda platform had on the efficiency of depository processing at NSD;
- implementation of the Automated Electronic Settlement System (AESS);
- NSD being recognized an Eligible Securities Depository for the purposes of Rule 17f-7;
- NSD's participation in Link<sup>Up</sup>Markets;
- NSD's interaction with Ukrainian securities depositories;
- opening a correspondent account for NSD in Chinese Yuan;
- measurement of the NSD Customer Satisfaction Index; and
- implementation of the project to renovate the office building located at 12 Spartakovskaya street, Moscow.



Also, the Supervisory Board gave much attention to considering and deciding on the matters of corporate governance at NSD, in particular:

- the assessment of the state of corporate governance at NSD;
  - the approval of the Restated NSD Charter as amended to reflect the closure of the NSD branch network;
  - the sale of NSD's shares in accordance with the Shareholders' Agreement;
  - the convocation of the annual and extraordinary General Meetings of NSD's shareholders;
  - the recommendations by the Supervisory Board to the General Meeting of NSD Shareholders;
  - approval of the Key Performance Indicators (KPI) for the Chairman and members of the NSD Executive Board;
  - the work of the committees of the Supervisory Board and the customer committees at NSD;
  - appointment of members to the Supervisory Board and customer committees at NSD;
  - formulating approaches to risk management for the MICEX-RTS Group companies and review of the work done to build the risk management system at NSD;
  - NSD's participation in SDC and nomination of candidates to the SDC Board of Directors;
  - NSD's participation in SPCEX and nominating a candidate to the SPCEX Exchange Council;
  - NSD's participation in DCC; and
  - approval of interested party transactions in which NSD took part.
- Moreover, decisions were taken on the matters relating to operational efficiency of NSD, amendment and approval of NSD's internal regulations, including the following:
- implementing the Balanced Scorecard system;
  - reviewing the activities of NSD's departments — IT Department, Regulatory and Technological Support Department, Client Relations Department, and Depository Operations Department;
  - reviewing the reports submitted by NSD's Internal Control Division and approving its working plan; reviewing the reports submitted by NSD's controller in connection with NSD acting as a professional securities market participant;
  - reviewing the reports submitted by NSD's Internal Audit Service and approving its working plan and the NSD internal regulations relating to the activities of the Internal Audits Service;
  - approving the NSD Information Security Policy;
  - approving the NSD Operational Risk Management Policy;
  - approving the NSD Business Reputation Risk Management Policy;
  - approving the NSD Business Continuity Policy;
  - approving the NSD Regulations on Risk Management;
  - approving the NSD Regulations on Legal Risk Management;
  - approving the NSD Regulations on the Information Policy;
  - approving the NSD Regulations on the Internal Control System;
  - approving the Restated Regulations on the NSD's Internal Control Division;
  - Approval of the Guidance on the Internal Control of a Professional Securities Market Participant at NSD;
  - approving the NSD Regulations on the Criteria (Principles) for the Selection of Investment Assets; and
  - amending the NSD Investment Portfolio Declaration.

**REPORT ON THE PAYMENT OF DECLARED (ACCRUED) DIVIDENDS ON NSD'S SHARES**

As provided by Federal Law dated 26 January 1995 No. 208-FZ "On Joint-Stock Companies", a company may decide (adopt a declaration) to pay a dividend in respect of its issued and outstanding shares and is required to pay the dividend so declared in respect of such shares.

The annual General Meeting of NSD's shareholders held on 26 April 2011 adopted the following resolutions in relation to dividend payment to the NSD shareholders:

- NSD would pay RUB 892,872,421.22 in dividends to the Company shareholders out of NSD's net profit earned in FY2010;
- NSD would pay RUB 3,507,125,487.78 in dividends to the Company shareholders out of NSD's retained profit earned in the years prior to the reporting year;
- the amount of the dividends to be paid in respect of NSD's shares was set at 3,726.68 roubles per ordinary share of NSD before the payment of the dividend income tax in accordance with subparagraph 1 of paragraph 3 of Article 284 of the Russian Tax Code;
- the dividends would be payable to the company shareholders within 30 days after the dividend declaration by the annual General Meeting of NSD Shareholders.

The dividends were paid in full and within the prescribed timeframe.

**REMUNERATION OF THE MEMBERS OF THE SUPERVISORY BOARD, THE CHAIRMAN OF THE EXECUTIVE BOARD AND THE MEMBERS OF THE EXECUTIVE BOARD**

Monetary remuneration is paid to the members of the Supervisory Board, the Chairman of the Executive Board and members of the Executive Board of NSD in accordance with Federal Law dated 26 December 1995 No. 208-FZ "On Joint Stock Companies", the Labour Code of the Russian Federation, the NSD Charter and employment agreements.

NSD pays remuneration to the members of its Supervisory Board in the amount and in accordance with the procedure approved by the annual General Meeting of Shareholders, depending on their involvement in the Supervisory Board's activities.

The remuneration payable to the Chairman and members of the Executive Board is determined by the NSD's Supervisory Board based on the company's financial results for the reporting year.

Information on the amount of remunerations payable to the members of the Supervisory Board, the Chairman of the Executive Board and the members of the Executive Board is published on NSD's website.

### COMPLIANCE WITH THE PRINCIPLES AND RECOMMENDATIONS OF THE CORPORATE CODE OF CONDUCT

NSD adheres to the provisions of the Corporate Code of Conduct approved by the Russian Federation Government on 28 November 2001 (Resolution of the FSFM of Russia dated 4 April 2002 No. 421/r).

Corporate governance is based on respecting shareholders' rights and legitimate interests and is designed to contribute to higher efficiency of NSD's operations, increase of its assets value and ensure the Company's financial stability and profitability.

Below is the list of the corporate governance principles which NSD endeavours to adhere in its activities:

1. Ensuring that NSD shareholders have a real opportunity to exercise their rights relating to their interests in NSD's charter capital:
  - » the records of ownership of the shares held by NSD shareholders are maintained by the Company registrar, Registrar Society "STATUS" Closed Joint-Stock Company;
  - » it is possible for shareholders to dispose of their shares;
  - » the shareholders are given an opportunity to participate in running the Company by adopting resolutions on the key operational issues at General Meetings of Shareholders.
2. The Supervisory Board is responsible for strategic management of NSD's activities and exercises effective control over the work of the Executive Board and the Chairman of the Executive Board; in its turn, the Supervisory Board reports to the General Meeting of NSD Shareholders:
  - » the NSD's Supervisory Board shapes the NSD development strategy, approves the Company's budget, and ensures that the Company's business activities are controlled efficiently;
  - » the composition of the NSD's Supervisory Board makes it possible to most effectively perform the functions entrusted to it;
  - » members of the Supervisory Board actively participate in meetings of the Supervisory Board and the committees of the Supervisory Board at NSD;
  - » meetings of the NSD's Supervisory Board are held regularly in the form of physical meetings or absentee voting, depending on the importance of the items on the agenda;
  - » the Regulations on the Supervisory Board sets out a detailed procedure for preparing and holding meetings of the Supervisory Board;
  - » the Supervisory Board has set up the Budget Committee, Audit Committee, Nomination and Remuneration Committee, and Technological Policy and Development Committee;

- » under the NSD Charter, the Supervisory Board may create other permanent and temporary committees, as well as use committees on the key areas of NSD's activities to address the day-to-day operational tasks;
  - » the Supervisory Board supports efficient operation of the Executive Board and its Chairman and controls their activities.
3. Ensuring that the Executive Board and the Chairman of the Executive Board are able to run the Company in an efficient, prudent and good faith manner and only in the interests of NSD, and ensuring that these governing bodies report to the NSD's Supervisory Board and shareholders:
- » under the NSD Charter, the Executive Board has the authority to decide the most complex issues of overall day-to-day management at NSD;
  - » the composition of the Executive Board ensures that the functions entrusted to the NSD executive bodies are performed efficiently and effectively.
4. Ensuring timely disclosure of complete and reliable information about NSD in compliance with the Russian laws and NSD's internal regulations and bylaws, including information on its financial position, economic indicators, ownership and management structure in order to enable the company shareholders to take informed decisions and ensure transparency of its operations:
- » NSD shareholders have equal opportunities in accessing corporate information;
  - » NSD shareholders are able to receive complete and reliable information, including that on NSD's financial situation, its business results, NSD governance, shareholders and material facts affecting NSD's financial and economic activities;
  - » a set of measures is in place to protect confidentiality of information and to control the use of private information and information representing NSD's commercial secret.



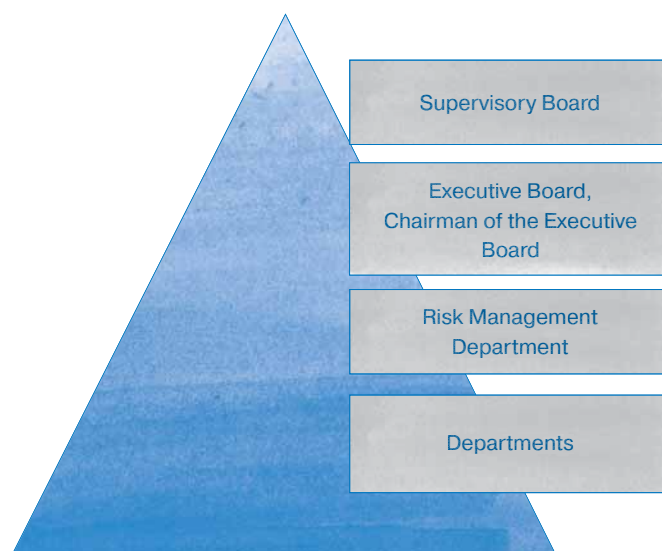
## RISK MANAGEMENT

### RISK MANAGEMENT SYSTEM

#### Organizing Risk Management at NSD

NSD attaches special importance to risk management and prioritizes stability and reliability. NSD uses a comprehensive approach to addressing tasks in this area, which helps us develop techniques used to protect the interests of the Company and those of its customers. The emphasis placed by NSD to risk minimization delivers its customers assurance that their assets are safe and secure.

Allocation of powers and interaction in the risk management process at NSD are arranged in a hierarchical fashion, which may be represented using the following diagram:





**NSD's Supervisory Board:**

- approves the internal regulations of a conceptual nature (i. e., policies), which set out the main principles for managing a particular risk at NSD, including approaches to identifying the risk, collecting data and assessing the level of risk, building an internal reporting system and developing measures to minimize the risk;
- controls the activities of executive bodies, decides on the measures designed to improve NSD's organizational structure and boost efficiency of its risk management system.

The issues relating to risk management at NSD are necessarily reviewed by one of the committees created by the Supervisory Board.

- the Audit Committee;
- the Technological Policy and Development Committee.

NSD also has the Quality and Risks Committee which includes representatives of NSD's participants that are securities industry members. Such form of discussing the risk management strategy and methods has proven to be most effective, as it makes it possible to obtain the market participants' feedback on the risk management system at NSD, receive information on the risk management arrangements at other financial services companies and identify the concerns and needs of the market participants in that respect.

**Executive Bodies (Executive Board, Chairman of the Executive Board):**

- approve the lower-level regulations on risk management (methodologies, procedures and rules);
- coordinate and control the activities of the Risk Management Department and structural divisions of the company;
- take decisions on a day-to-day basis designed to minimize the operational risk of NSD's activities, manage the business recovery process in accordance with the procedure prescribed by the Company's internal regulations on business continuity planning and disaster recovery;
- organize the risk management system in accordance with the general principles formulated by the Supervisory Board.

The Executive Board set up the Risks Committee and Incidents Committee as a measure to assist the Executive Board and produce recommendations in the area of corporate risk management, improving the efficiency of interaction among NSD's structural divisions (including the Risk Management Department) with respect to developing measures to minimize risks and ensure prompt response to emergencies.





The Risk Management Department is a specialized structural unit carrying out its core activities within the framework of the NSD risk management system.

The Risk Management Department:

- collects data needed to identify the risk factors, as well as statistics on the realization of risk events;
- assesses the risk level using the existing methodologies;
- prepares analytical reports for the Company's governing bodies containing proposals designed to improve the risk minimization measures and the risk management system as a whole.

The Risk Management Department includes the following units:

- the Economic Risk Management Service; and
- the Non-Economic Risk Management Service.

The activities of the Risk Management Department are overseen by one of the Deputy Chairmen of the Executive Board.

Each of the services comprising the Risk Management Department is assigned with its own risk profile at NSD, as shown below.

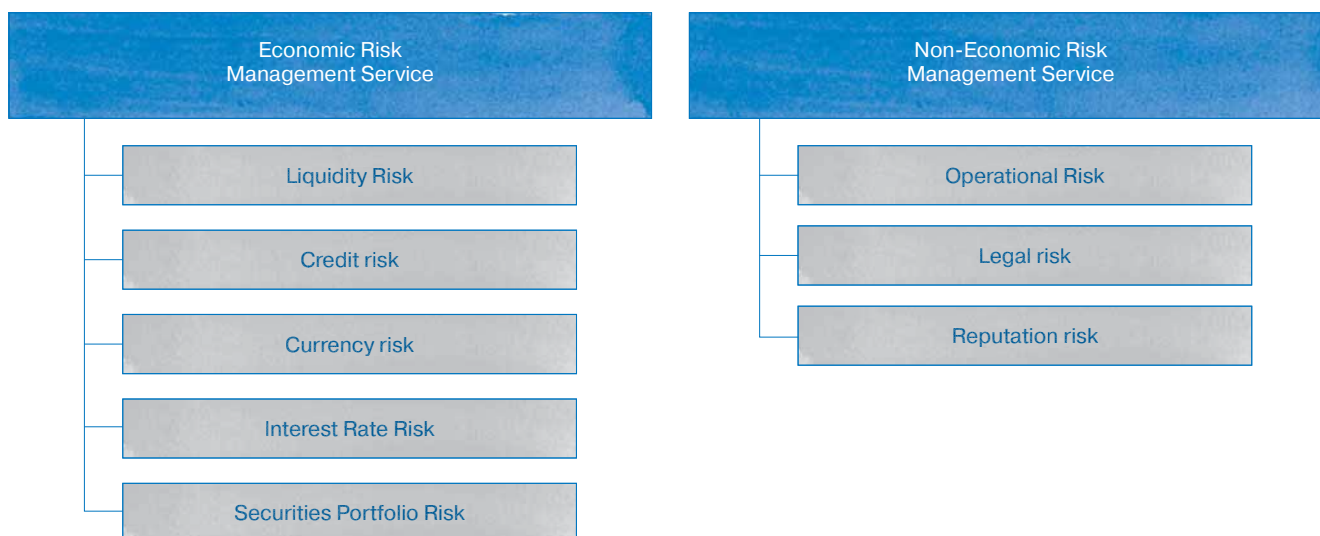
#### Development of NSD's Risk Management System in 2011

After the merger of NDC with and into MICEX SH (former name of NSD), NSD faced with a broader risk profile, which now comprises safekeeping risks (NDC) and banking risks (MICEX SH). Accordingly, in 2011 NSD had to rethink the existing risk management system so that it would conform the broader risk profile and the scope of the new company's operations.

Moreover, NSD reports to two regulators, the FSFM of Russia and the Bank of Russia. In light of NSD's status and position on the financial market, one should expect increased attention from the regulators on all aspects of the company's activities, primarily, the efficiency of the risk management system.

In addition to the requirements imposed by the regulators, the risk management system should take into account the generally accepted risk management standards. This primarily concerns the recommendations given by the Basle Committee on Banking Regulations and Supervisory Practices, which include the best-known recommendations which have become a de-facto standard, on the calculation of the amount of capital adequate to cover the credit risk and market risk (Basel II), as well as recommendations (the so-called 'sound principles') in relation to liquidity risk, operational risk, etc.

During the year under review, NSD took significant efforts to retain external auditors to assess whether the risk management system at NSD is adequate to the scope and nature of its activities.



In 2011, Thomas Murray, the specialist custody rating agency working with the major CSDs in Europe and USA, conducted a rating survey at NSD. Based on the results of the survey carried out in March 2012, Thomas Murray issued a CSD rating for NSD of A+, which translates as 'low risk' and confirms the company's reliability.

Also, NSD had a pre-audit analysis undertaken of its internal procedures and controls. One of the leading consulting companies was engaged to perform an audit using the methodology of international standards of operational audit. The audit results were used as a basis for the action plan designed to further improve the internal control system which becomes especially important in light of the preparations for NSD submitting an application for the CSD status expected in 2012.

#### Improving the NSD Risk Management System on Each of the Principal Risks in its Current Risk Profile

##### Liquidity Risk

The liquidity risk assessment and control are performed in strict accordance with the requirements of the Bank of Russia and the company's internal rules and regulations. Idle cash balances are deposited with the Bank of Russia and invested in the most reliable debt instruments so that such investments do not adversely affect the quick liquidity ratio, i. e., the Bank of Russia's bonds and federal loans bonds (OFZ).

The NSD's Regulations on Investment Criteria are the company's principal document intended to secure a balance between the safety of NSD's funds and those of its customers, and an acceptable yield, with the main emphasis placed on reliability and liquidity. In furtherance of the Regulations, the Supervisory Board approved the Investment Declaration setting out the framework for investing assets, as well limits on the volume and structure for investing idle cash.

For the purpose of ensuring operational control of liquidity, NSD has in place the minimum liquidity ratios and regularly monitors compliance with those ratios. Moreover, an action plan has been approved which is designed to maintain an adequate level of liquidity at NSD. The plan contains a set of measures which help maintain such level in various liquidity scenarios.

Managerial reports in relation to the liquidity risk are regularly prepared and submitted to the Executive Board and the Audit Committee of the NSD's Supervisory Board.

##### Credit Risk

The credit risk is managed in accordance with the internal rules and regulations. The techniques used to that end include analysis of NSD's loan portfolio and other assets subject to credit risk, and risk analysis in respect of NSD's counterparties, certain instruments and transactions using the methods of quantity and expert (quality) assessment. The results of such analysis are used to set

counterparty- and instrument-specific exposure limits, as well as limits for the periods and types of transactions which are approved by the Company's Executive Board. As part of its day-to-day operations, NSD generates, on a monthly basis, reports on the financial position of its counterparties and produces professional opinions on the classification of NSD's assets carrying credit risk for the purposes of provisioning in accordance with the regulations of the Bank of Russia.

Managerial reports in relation to the credit risk are regularly prepared and submitted to the Executive Board and the Audit Committee of the NSD's Supervisory Board.

##### Currency Risk

The currency risk is managed in accordance with the internal rules and regulations using the approaches recommended by the Basel Committee on Banking Regulations and Supervisory Practices (Basel II). The currency risk assessment is based on the calculation of VaR using the parametric approach for a period of at least one calendar year.

Managerial reports in relation to the currency risk are regularly prepared and submitted to the Executive Board and the Audit Committee of the NSD's Supervisory Board.

##### Interest Rate Risk

The interest rate risk is managed in accordance with the internal rules and regulations which describe the approaches to measurement of the interest rate risk by the duration. Assessment of the interest rate risk involves determining the structure and key parameters of the assets and liabilities that are sensitive to fluctuations of the market rate, and forecasting changes in the market rate which have an impact on the value of NSD's assets/equity and liabilities.

Managerial reports in relation to the interest rate risk are regularly prepared and submitted to the Executive Board and the Audit Committee of the NSD's Supervisory Board.

##### Price Risk

The securities portfolio risk management is based on the measurement of the securities portfolio revalued at fair value through profit or loss, and available-for-sale using the value-at-risk (VaR) methodology.

Moreover, NSD analyses the market liquidity of its securities portfolio and the effectiveness of its bond portfolio.

The managerial reports in relation to the securities portfolio risk are regularly prepared and submitted to the Executive Board and the Audit Committee of the NSD's Supervisory Board.

### Operational Risk

In accordance with Letter of the Bank of Russia dated 23 June 2004 No. 70-T "On Typical Banking Risks" and Letter of the Bank of Russia dated 24 May 2005 No. 76-T "On the Organization of Operational Risk Management at Credit Institutions", operational risk is defined by NSD as the risk of the occurrence of loss due to the fact the company's internal rules and procedures for processing transactions do not correspond to the nature and scope of the entity's activities or are not in compliance with the applicable laws, or because of the violations of such rules and procedures by the entity's employees and/or other persons as a result of their negligent or wilful acts or omissions, or the inadequacy or insufficiency of the functionalities of the information, technological and other systems used by the credit institution and/or their breakdown (failures in functioning), and as a result of external events.

In NSD's activities, the operational risk is very significant because of the significant turnover of customers' assets in their accounts with NSD and in NSD's correspondent account with the Bank of Russia, as well as the strict processing routine, the 12-hour operating day and the standard of real-time customer services provided by NSD.

The key task in managing the operational risk is to ensure proper compliance with NSD's internal policies and procedures designed to reduce both external and internal risk factors.

In accordance with the approved Operational Risk Management Policy, 2011 saw efforts to further improve the risk management system in the following areas:

- data collection to identify and analyze the risk;
- risk assessment;
- building a risk reporting system; and
- improving the measures designed to minimize the operational risk.

The data needed to identify risk is collected in accordance with the approved Regulations on Collecting Operational Risk Information. The Regulations provide for the collection of external and internal data related to the operational risk (primarily, operational risk events). The external data are collected by the Non-Economic Risk Management Service, which is part of the company's Risk Management Department. Internal data are collected by the risk coordinators, i. e., employees of NSD's divisions whose job duties, among the principal ones, include identifying and collecting information relating to the operational risk in the prescribed format. The information received from the risk coordinators is accumulated in a dedicated database.

In 2011, trainings were conducted to the risk coordinators to ensure that the information collected by them is uniform, is of a proper quality and is delivered on a timely basis.

In order to identify and assess the operational risk exposure, NSD in August to October 2011 conducted a self-assessment of the operational risk level for 2011. The self-assessment was carried out with the involvement of the Company's top executives, as well as managers of the key departments. The self-assessment identified those areas in the Company's activities which are most exposed to the operational risk and helped determine the amount of capital at risk at various confidence intervals, including the one recommended by the Basel Committee (99.9 percent). The results of the self-assessment were presented in the form of a report to NSD's governing bodies and the departments taking part in the self-assessment, and were used to determine the level of coverage under the Banker's Blanket Bond.

The measures to minimize the operational risk are peculiar in that they are generally developed by NSD's structural units. The Risk Management Department provides methodological support in developing such measures and initiates their development based on the results of the analysis undertaken (in particular, the self-assessment conducted in 2011).

Apart from the efforts undertaken to reduce the risks inherent in NSD's activities, NSD maintains insurance so as to keep its customers confident that their assets held at NSD are safe and secure. The insurance policy covers, in addition to the risks provided by the Bankers' Blanket Bond, and the risks caused by Electronic and Computer Crime. Also, the insurance covers NSD's professional liability. In 2011, the amount of coverage was 65 million US dollars per occurrence and in the aggregate for all occurrences during the policy term. The insurance provider was Ingosstrakh Insurance Company, with Lloyd's syndicates acting as reinsurers.

### Legal and Reputation Risks

In line with the requirements of Letter of the Bank of Russia dated 30 June 2005 No. 92-T "On Organizing the Management the Legal Risk and Reputation Risk at Credit Organizations and Banking Groups", NSD views the following as the key factors of the legal and reputation risks:

- NSD's decisions and policies are not in compliance with the laws of the Russian Federation as amended;
- NSD or its customers and counterparties are in breach of their contracts;
- adverse media publications about NSD or its employees, shareholders or managers;
- insufficient consideration by NSD of the legal matters concerned when implementing new technologies and the terms of executing regulated market transactions, settlement, etc.

In order to minimize the legal and reputation risks, NSD is taking steps to standardize the transactions processing by developing and implementing internal procedures and policies, standard forms of contracts and other documentation which is subject to mandatory review and approval by the Legal Service. The Legal Service also endorses the agreements entered into by NSD if such agreements are different from the standard form.

In 2011, in accordance with the Regulations on Organizing the Management of Legal Risk, NSD monitored amendments to the laws of the Russian Federation. Based on the results of the monitoring, NSD's Legal Department made a recommendation to revise the Company's bylaws and regulations.

Based on the KYC principle, NSD has developed and implemented procedures to collect, analyze and monitor counterparty information.

During the reporting year, NSD monitored and analyzed the influence of the Company's charitable, social and information policy on its business reputation.

Also, the Company monitored the business reputation of its shareholders and affiliates and analyzed whether the mass media provide objective coverage of NSD's activities.

These measures are prescribed by the company's Business Reputation Risk Management Policy. Based on the results of the analysis undertaken, NSD's governing bodies were presented with reports on the positive and negative factors affecting the Company's business reputation.

## INTERNAL CONTROL

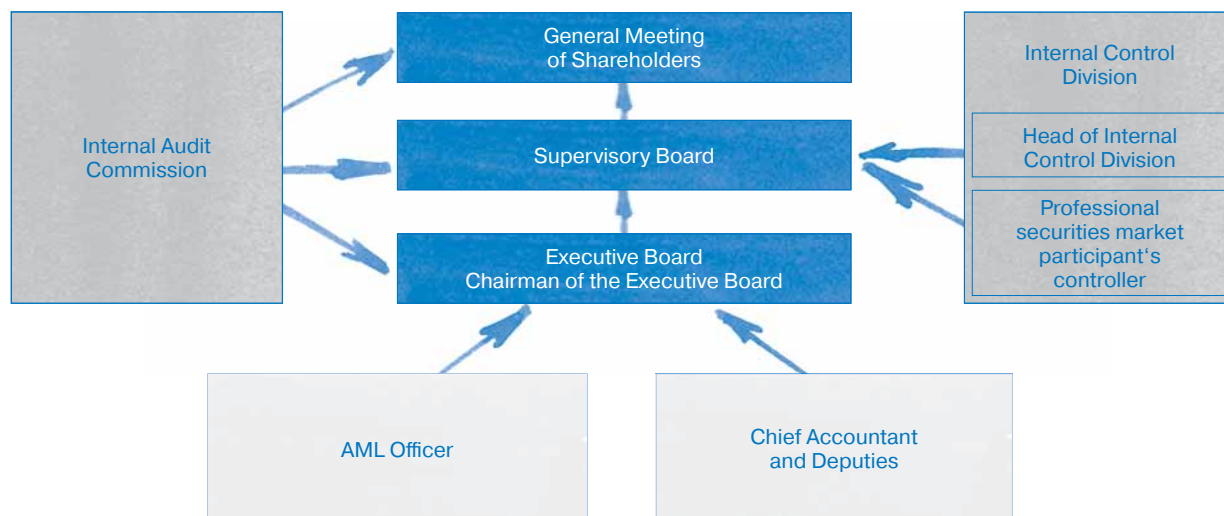
NSD's internal control system is being set up in accordance with the nature and scope of the professional activities carried out by NSD as a non-banking credit organization and a professional participant of the securities market.

The Company's internal control system is aimed at achieving the following goals:

- ensuring the efficiency and effectiveness of NSD's financial and business activities when processing banking, depository and other transactions, the effectiveness of assets and liabilities management (including securing the safety of assets), and managing the bank risks, i. e.:
  - » identifying, measuring and determining banking risks having a material effect on NSD's activities which, if materialized, may result in losses and/or decline in liquidity due to occurrence of adverse events;
  - » constant monitoring of the banking risks;
  - » taking measures to maintain the banking risks at a level which does not pose a threat to the Company's financial stability and the interests of NSD's customers, counterparties and shareholders;
- ensuring that the financial, accounting, depository, statistical, tax and other reports (intended both for external and internal users) are prepared and submitted in a reliable, complete, objective and timely manner;
- compliance with the legislative acts, standards of the self-regulatory organizations, and NSD's constitutional documents and bylaws;
- preventing involvement of NSD and its employees in unlawful activities, including money laundering and terrorist financing, and ensuring timely submission of information to the government authorities and the Bank of Russia in accordance with the Russian laws;
- preventing the adoption of rules and/or exercise of practices which might encourage actions contrary to the Russian laws;
- maintaining information security at NSD;
- compliance with the Russian securities market laws, including the rules and regulations adopted by the federal securities regulator, the Russian laws on the protection of the rights and legitimate interests on the securities market, as well as the advertising laws, and NSD's bylaws;

In 2011, changes were made to the organizational structure of NSD's Internal Control Division (ICD). The ICD has two divisions whose role is to control NSD's activities as a professional securities market participant and as a credit institution.

### Lines of Reporting in the Area of Internal Control



The approach to audit has undergone a radical change: in accordance with the international best practices, the company started to use the risk-based audit approach. Audits have been significantly improved in terms of both quality and frequency.

In 2011, the Company fully updated its rules and regulations, having revised, approved and put into effect the following documents:

- Regulations on the Internal Control System;
- Regulations on the Internal Control Division;
- Procedure for Conducting Audits by the Internal Control Division.

A new system has been put in place for the ICD to report to NSD's governing bodies.

The lines of reporting in the internal control system are shown in the diagram below:

## INFORMATION SECURITY

The work to ensure information security (IS) at NSD is organized in accordance with the Russian laws, the package of the standardization documents issued by the Bank of Russia "Ensuring Information Security of Organizations of the Banking System of the Russian Federation" ("BR ISBS Package") and the NSD Information Security Policy approved by the Company's Supervisory Board on 25 March 2011 (Minutes No. 5/2011).

The IS activities are primarily intended to ensure security of assets and customers services by NSD, as well as the company's banking, depository, settlement and information systems.

Pursuant to the decision of the Executive Board dated 9 July 2010 (Minutes No. 11) on implementing the BR ISBS Package in order to comply with the Bank of Russia's requirements, NSD undertook an assessment in 2011 to determine whether the NSD is in compliance with those requirements. An independent professional firm, Informzaschita, performed an information security audit at NSD and assigned the Company the third-level degree of information security with the score of 0.75.

As a measure to maintain and further increase the IS level at NSD, the Company is working to develop the information protection media used in the operation of automated systems. The reporting year saw the successful launch of a project to implement a system for record-keeping, management and audit of the methods of authentication and storage of key data based on the eToken security solution, which helps manage users' access to information resources based on the two-factor authentication and using random protected passwords. Work is underway to implement the instruments to monitor IS events.

The Information Security Service is entrusted with creating an effective system to manage IS risks and conducting work designed to counter any possible threats. 2011 saw significant changes in the IS management system — the IS Services were strengthened, the company introduced shift working for the IS administrators in order to enable an uninterrupted impact of the IS processes on the business processes. As a consequence, NSD expanded the scope of application of the IS system and increased control of the activities of information resource users and their IS awareness by using remote education facilities, and increased efficiency of responding to any issues discovered.



The IS Service is constantly working to improve the internal regulatory framework on IS; it prepared and approved more than 30 regulations and instructions. In accordance with the requirements of the BR ISBS Package, the IS Service is actively involved in the developing statements of work, implementing the hardware and software, performing expert review of the contractual base, regulates processes designed to separate the users' access, makes adjustments and provides technical support to the information protection products, allocates the access rights and supports the key data. The IS Service's employees are acting as persons responsible for the processing and protection of personal data.

NSD became in 2011 a founder of Non-Profit Partnership "Association for Banking Information Security Standards ABISS" and provides assistance in data protection in order to improve the activities of banking organizations in the Russian Federation.

## **BUSINESS CONTINUITY AND DISASTER RECOVERY PLANNING**

In September 2011, NSD set up the Business Continuity Service ("BCS"). The BCS is an independent division whose overall goal is to create an efficient system for managing business continuity which will help preserve continuity of the company's business processes in the event of emergency and promptly resume normal services.

As part of the process to create a system of internal documents at NSD to ensure business continuity, the BCS produced the NSD Business Continuity Policy approved by the Company's Supervisory Board on 22 December 2011 (Minutes No. 25) and the Business Continuity Plans for NSD's key units.

In order to ensure that the key business processes critical sensitive to interruption are backed up, the BCS launched a project to modernize NSD's backup site, which was successfully completed in late 2011.

In December 2011, the BCS tested the viability of the upgraded backup site and conducted emergency drills for NSD's employees where emergency calls for evacuation from the company's headquarters.

In late 2011, two more tests were run at NSD:

- testing designed to confirm that it is possible to settle on-exchange trades on the MICEX-RTS Group's markets and interacting with the Bank of Russia from the backup site premises; and
- testing designed to confirm that it is possible to process depository transactions from the backup site premises.

Analysis of the results suggested that the NSD backup site tests have been a success.



## PREVENTING NSD'S INVOLVEMENT IN UNLAWFUL ACTIVITIES

### Combating Money Laundering and Terrorist Financing

In 2011, NSD was actively involved in ensuring compliance with Federal Law No. 115-FZ 'On Combating the Laundering of Proceeds from Crime and the Financing of Terrorism' ("AML Law").

NSD drafted, obtained regulatory approval of, and implemented the Restated Rules of Internal Control for the Purpose of Combating the Laundering of Proceeds of Crime (Money Laundering) and Terrorist Financing ("AML Rules"), and put into effect other bylaws of NSD in the area of AML/CFT.

The AML Rules were drafted in accordance with the requirements of the Russian laws and the Bank of Russia's rules and regulations, taking into account the peculiarity of NSD's activities and those of its customers, the typical features of transactions requiring special attention and helping identify doubtful transactions.

On-going analysis of our customers' activities and transactions is intended to manage the risks relating to money laundering and terrorist financing and increase the effectiveness of the measures being taken by NSD pursuant to the Russian laws. In particular, in the event that there are signs that customers are engaged in doubtful activities, NSD decides on terminating the online banking services agreements and raising the fees charged for payments using hard copy payment instructions in the amount of 10 percent of the transfer amount.

In 2011, NSD submitted timely reports to the Federal Financial Monitoring Service of the Russian Federation (Rosfinmonitoring) on transactions subject to mandatory control and doubtful transactions, as well as on refusals to enter into a bank account agreement in accordance with the AML Law. Such information was accepted by Rosfinmonitoring in full.

NSD also undertook other activities provided by the Russian laws, including a set of measures designed to implement the KYC approach.

In the course of the year, efforts were continued to provide training and further education to NSD's employees in the area of AML/CFT, including with the involvement of officials from Rosfinmonitoring, the Bank of Russia and the FSFM of Russia.

### Combating Insider Dealing and Market Manipulation

In connection with the entry into force on 27 January 2011 of Federal Law of 27 July 2010 No. 224-FZ "On Combating Unlawful Use of Insider Information and Manipulation of Market and on Making Amendments to Certain Legislative Acts of the Russian Federation", NSD conducted work to ensure compliance with that Law and the related legislation of the federal securities regulator:

- A responsible person was appointed to control the compliance with Federal Law of 27 July 2010 No. 224-FZ and the legislative acts adopted to implement it.
- NSD's Supervisory Board received quarterly reports from the compliance officer responsible for controlling observance of Federal Law of 27 July 2010 No. 224-FZ and the legislative acts adopted pursuant to it, on the work done by such officer.
- The following internal rules and regulations were drafted and adopted:
  - » the Procedure for Access to Insider Information at NSD;
  - » the Rules for Protecting Confidentiality of Insider Information at NSD and Controlling the Compliance of Federal Law of 27 July 2010 No. 224-FZ and the Legislative Acts Adopted Pursuant to it;
  - » list of insider information of NSD;
  - » the procedure for maintaining the insider list at NSD;
- Within the time frame prescribed by the financial services regulator, NSD provided its insider lists to the stock exchanges.
- Other measures were taken relating to the maintenance of an insider list, in particular:
  - » arrangements were put in place to ensure that NSD's insiders were given notices that they had been included in or removed from NSD's insider list;
  - » steps were taken to control whether NSD was correctly included in other entities' insider lists; NSD analyzed whether the grounds for including the Company in such insider lists were in compliance with the laws of the Russian Federation, and reviewed the lists of insider information with a view to determining whether NSD might have access to such information);
  - » records were made of notices of inclusion in/removal from the NSD insider list.

## CORPORATE SOCIAL RESPONSIBILITY

### HR MANAGEMENT

NSD defines its Human Resources policy so as to match the scope and complexity of the goals set for the Company. Top priority is given to raising the educational and intellectual level of our employees based on the principle “The best investments are those made in personnel development and training”, adequate use of the available human resources and incentivizing employees to achieve the targets set for them.

When selecting personnel, we consider not only the candidates’ professional background, but also the quality of their education and special training. Preferred candidates are those who have degrees from the state universities based in Moscow. 93 percent of NSD’s employees have university degrees and qualification certificates granting the right to carry out various types of professional activities on the financial market. During the year under review, more than half of NSD’s employees took part in various training programs.

In response to the requirements imposed by the Bank of Russia and the FSFM of Russia, NSD has provided training and briefing to its employees in the area of preventing money laundering and terrorist financing (AML/CFT). During the year, 56 employees received on-the-job AML/CFT training and did the course “Basics on the Securities Market”, and were granted qualification certificates by the FSFM of Russia.

Last year saw significant changes to the composition and numbers of NSD’s employees. As a measure to optimize the staff structure, NSD liquidated 6 regional branches. New departments were set up, such as the Risk Management Department, Planning and Control Department, and the Business Continuity Service. Overall, in 2011, nearly a quarter of the Company’s staff were new hires, with the year-end headcount making 398 employees (without taking into account part-time employees from the MICEX-RTS Group).

Moreover, independent units saw significant restructurings and personnel reshuffles. This was due, among other things, to the need to promote and incentivize key employees contributing to the business development, and to ensure stable staffing levels. To these ends, NSD carried out a staff performance review and used its results to determine the amounts of annual remuneration. Also, the employees who contributed most to the implementation of projects were rewarded according to their input.



In 2011, the MICEX-RTS Group decided to change the voluntary medical insurance provider. Over 700 employees and their family members were insured with Ingosstrakh Insurance Co. and were given the opportunity to receive coverage in the following five areas: outpatient assistance, planned and emergency hospital care, home health care, emergency health care and dental care. Moreover, there are a number of additional benefits which the insurance provider makes available to the insured employees and their family members. Among such benefits is the possibility to purchase drugs in the Rigla pharmacy chain at up to 80% discount prices; annual foreign travel insurance policies, medical care and consultations by an office doctor who can, if necessary, issue certificates of sickness, medical certificates needed to drive a vehicle or go to a swimming pool.

Last year, employees were compensated for part of the shortfall in their earnings as a result of a disease (i. e., NSD paid an employee's full salary for ten working days missed as a result of illness). Employees who had worked at NSD for more than six months were given holiday financial assistance in the amount of one month's salary. The Company actively supported its employees with regard to important events in their daily lives, providing financial assistance in connection with marriage, childbirth, and during periods of hardship.

In its social policy, NSD endeavours to comprehensively and effectively compensate its employees for their intellectual, moral and physical efforts made in their hard and responsible work.

The measures being taken by NSD to further improve the training level, promote employees and cater for their well-being incentivize our employees to work productively, strengthen their corporate spirit and customer centricity, increase their loyalty and have a positive effect on NSD's work as a whole.

## CHARITY ACTIVITIES

According to the 4th Annual Survey of Corporate Charity in Russia "Corporate Charity Leaders" conducted in 2011 by the Vedomosti daily, PricewaterhouseCoopers and Non-profit Partnership of Grantmaking Organizations "Donors Forum", NSD ranked among the top ten efficient corporate charity providers in the "Finance" category.

Last year, NSD's Charity Committee held 6 meetings and considered 31 applications from individuals and legal entities, 11 of which were granted.

As part of the Program "Involvement in a Destiny", NSD gave a charitable donation to the Udelnoe Specialized Children's Home for orphaned children, social orphans and handicapped children. The funds will be used to repair the Children's Home premises and install plastic windows. In the run-up to New Year, NSD paid for the excursion ride and New Year presents for the educatees of the Udelnoe Children's Home.

The State Educational Institution of the Moscow Region "Lyubertsy Specialized Child Care Centre FOR Children with Central Lesion and Mental Disturbance" received charitable assistance from NSD, which paid for the current repairs in the laundry on the semi-basement floor.

As part of the charity project "Me in this World" designed to assist orphaned and disabled children with developmental disorders in their social adaptation and rehabilitation, NSD gave charitable donations to special (correctional) residential school No. 53 for orphaned children and children without parental care (Type VIII). The school's educatees received facilities for computer literacy training, including a computer classroom, multimedia projectors, interactive whiteboards, and printers. The computer literacy will contribute to the pupils' social adaptation. Also, as a tradition, NSD gives the leavers of residential school No. 53 sets of clothes and footwear.

NSD also provided charitable aid to the Moscow State University of Geodetic Surveying and Cartography in 2011 to develop its sports facilities.

The non-state sports school Children's Football Club "C. A. R. I." in the district of Moskvorechye-Saburovo, Moscow, received from NSD soccer outfit, footballs and training equipment.

## INFORMATION POLICY

In 2011, the NSD's Supervisory Board adopted the Regulations on the Information Policy of NSD ("Information Policy Regulations") which sets down the procedure for information disclosure, i. e., ensuring that the information on NSD is available to the public in accordance with the procedure which guarantees the possibility of finding and obtaining such information, including:

- any information that NSD is required to provide in accordance with the requirements of the Russian laws;
- any information that NSD provides at its own initiative or on a stakeholder request.

In particular, the Information Policy Regulations provide that NSD shall, in its activities, adhere to the principle of information openness for its shareholders, customers, business partners, counterparties, government authorities, NSD employees, and other stakeholders, which helps ensure a proper level of information disclosure while observing the following rules:

- consistency of the activities relating to information disclosure and implementing the information policy with the development strategy (goals and objectives) of NSD and the MICEX-RTS Group as a whole;
- ensuring the reliability and accessibility of the information being disclosed;
- ensuring timely, regular and non-discriminatory disclosure of information (i. e., not allowing the grant of privileges to certain groups of recipients of information to the prejudice of others);
- maintaining a reasonable balance between NSD's openness and protecting its commercial interests, as well as those of the MICEX-RTS Group as a whole;
- compliance with the Russian laws and regulations relating to commercial and bank secrets, insider information, as well as the requirements of NSD's policy for handling information of a confidential nature;
- maintaining the standards of professional ethics;
- information distribution channels should ensure that stakeholders have a free, easy and low-cost access to the disclosed information.



In 2011, the NSD's Supervisory Board adopted the Business Reputation Risk Management Policy which sets down:

- the objectives and goals in managing the reputational risk;
- the procedure for identifying, monitoring and assessing reputational risks;
- measures to maintain an acceptable level of the reputational risk and minimize it;
- allocation of powers in the process of managing the reputational risk.

In addition to the traditional channels for communicating with its counterparties, NSD started in 2011 to use the popular social networks, such as Twitter, LinkedIn, Facebook and Investor.ru.





## INTERNATIONAL COOPERATION

### Regional CSD Associations Agree to Create the World Forum of CSDs

NSD's representatives on the delegation of the Association of Eurasian Central Securities Depositories (AECSD) took part in the 11th Conference of Central Securities Depositories (CSD11) held in April 2011 in Cape Town. The conference brought together 230 delegates from 65 countries, representing 70 Central Securities Depositories.

During the three-day conference, the representatives of the five regional associations agreed that the time was right to formalize the relationship between the regional associations and announced the formation of the World Forum of CSDs (WFC). The WFC will build on the contribution of the CSD Contact Group (format for the meetings among the regional CSD associations) over the past four years in enhancing inter association communications. The objective of the WFC is to provide a forum for the five Regional CSD associations to exchange information, discuss issues of common interest and increase their influence and engagement on cross-regional and global developments, as well as providing a common voice on issues relevant to the various associations and their members.

The Forum will have a Board composed of 10 members, namely the Chairs and Vice-Chairs of each of the five regional associations, with the Association that has most recently hosted the Global Conference of CSDs acting as chair of the WFC for a two-year term. The Board will be supported by the Secretariats of the respective associations, including NSD acting as the AECSD's Secretariat.

Mr. Mohamed Abdel Salam of MCDR (Egypt), representing the Africa and Middle East CSD Association, will take on the role of Chair of the newly formed WFC. Mr. Yoshinobu Takeuchi of JASDEC (Japan) will be acting as WFC Vice-Chair.



The five regional CSD associations (representing 125 member CSDs) involved in the formation of the WFC are:

- European Central Securities Depositories Association (ECSDA);
- Asia — Pacific CSD Group (ACG);
- Americas' Central Securities Depositories Association (ACSDA);
- Africa & Middle East Depositories Association (AMEDA); and
- Association of Eurasian Central Securities Depositories (AECSD).

During 2011, WFC organized a global survey on the priority areas and issues of CSD development, as well as discussion of the CPSS/IOSCO Principles for Financial Market Infrastructures.

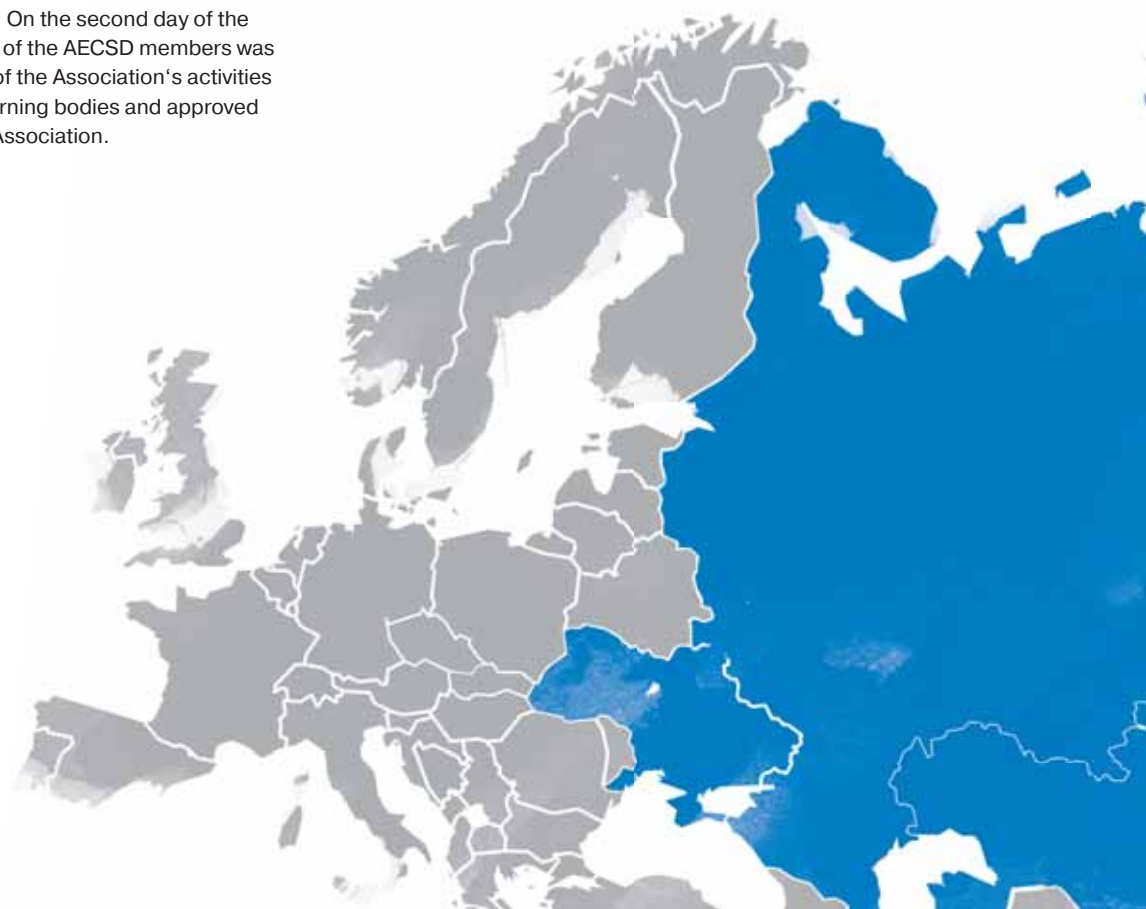
[Nikolay Shvetsov, Chairman of the Management Board of Joint-Stock Company "Ukrainian Securities Depository" \(USD\), Ukraine, was elected AECSD Chair, and Eddie Astanin, Chairman of the NSD Executive Board, was elected AECSD's Deputy Chair.](#)

On 6 to 8 October 2011, AECSD, jointly with the International Association of Exchanges of the Commonwealth of Independent States countries (IAEx of CIS), held the 8th AECSD International Conference "Global Opportunities of Local Markets: Infrastructure and Regulation" in Yerevan, Republic of Armenia.

The conference was hosted by the Central Depository of Armenia (CDA) and NASDAQ OMX Armenia. On the second day of the event, the Annual General Meeting of the AECSD members was held which considered the results of the Association's activities in 2010, elected the AECSD's governing bodies and approved the development priorities for the Association.

In particular, the AGM approved the following resolutions:

- the 10th International Conference of the AECSD will be held in 2013 in Russia, with NSD approved as the organizer of the forum;
- amendments have been introduced to the AECSD Resolution providing for the status of an observer and the status of the Deputy Chairman at the AECSD;
- Nikolay Shvetsov, Chairman of the Management Board of Ukrainian Securities Depository, has been elected Chairman of the Association, and Eddie Astanin, Chairman of the Executive Board of NSD, has been elected Deputy Chairman of the AECSD;
- members have been appointed to the working group "CSD12 Steering Committee" to organize and hold the 12th Conference of Central Securities Depositories (CSD12) that will be held from 29 to 31 May 2013 in Saint Petersburg. CSD12 will be hosted by the AECSD, but NSD has been approved as a sponsor and revenue and expense administrator for the event.



#### MICEX, RTS and NSD unveiled integration plans and latest developments at Sibos 2011 held in September in Canada

For the first time, the two groups of companies undergoing integration presented themselves at Sibos with a common exhibition booth.

On 20 September, during the biggest international financial forum Sibos 2011, NSD, Dewey & LeBoeuf and K&L Gates presented the report "NSD is an Eligible Securities Depository under Rule 17f-7 of the U. S. Securities and Exchange Commission". The presentation was attended by members of the global custodian community. The attendees were given a detailed presentation containing a step-by-step analysis of Russian laws accompanied with the English translation of the relevant excerpts in an appendix.

On the same day, NSD and JASDEC signed a memorandum of understanding (MOU) on information sharing and cooperation.

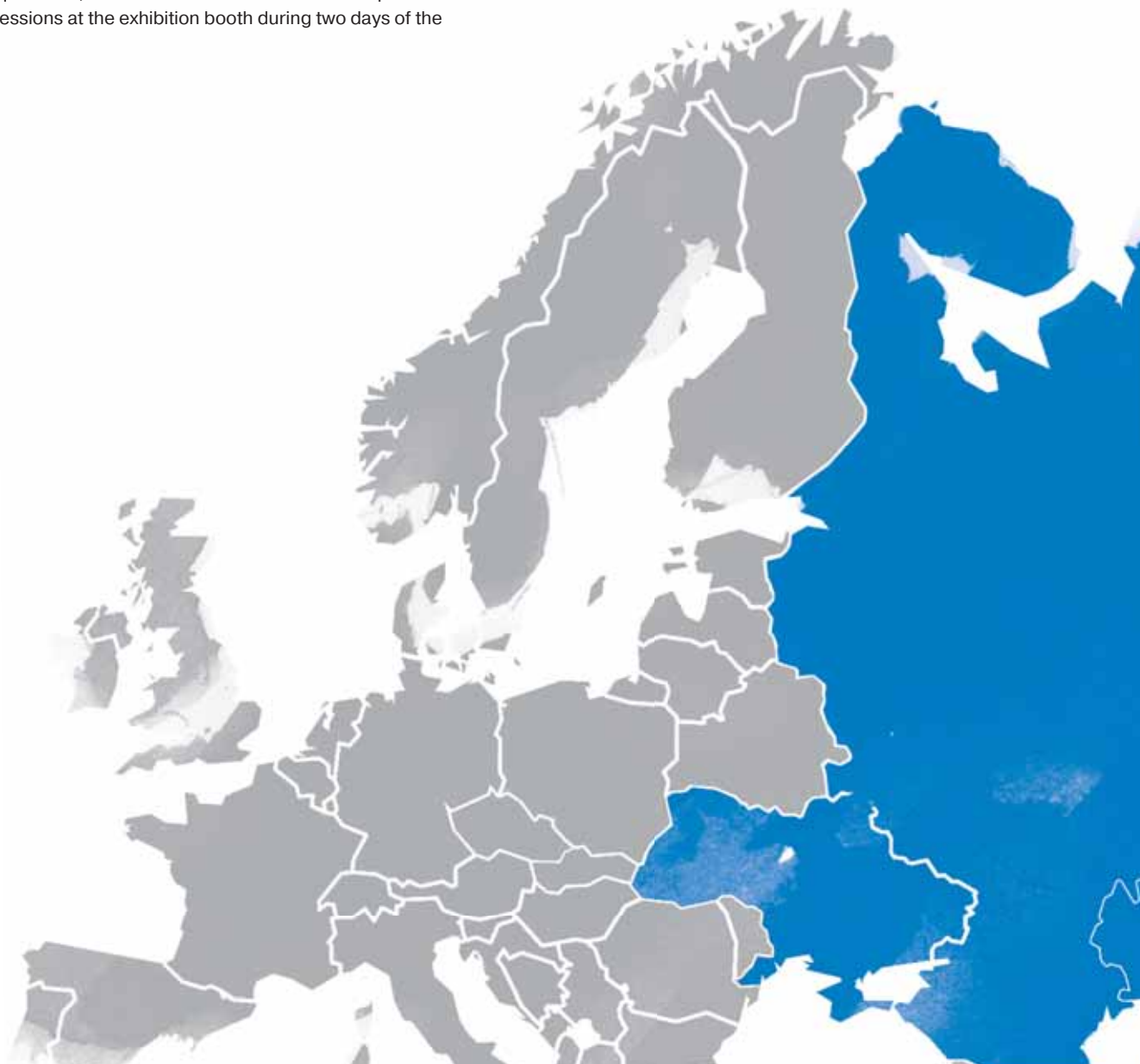
Eddie Astanin spoke at the panel session devoted to the securities infrastructure, which traditionally opens Sibos. To answer the numerous questions, NSD and the Bank of Russia held special one-hour sessions at the exhibition booth during two days of the event.

#### NSD and Japan's JASDEC Sign an MOU on Information Sharing and Cooperation

On 20 September 2011, Japan Securities Depository Center, Inc. (JASDEC) and NSD signed a Memorandum of Understanding (MOU).

JASDEC and NSD will establish, under the terms of the MOU, a basis of cooperation in securities depository and settlement related matters to help foster the prosperity of their financial markets, promote cross-border investment, and explore opportunities of cooperation in both depository and settlement operations and establishment of an operation linkage.

The companies anticipate developing a closer working relationship in the future, and wish to maintain channels of communication for exchange of information, and to promote visits for reasons of friendship and other business purposes by personnel of the companies.





## DEVELOPMENT PROSPECTS

### OBTAINING THE STATUS OF THE CSD

Late 2011 saw the adoption of the Federal Law “On the Central Securities Depository” (“CSD Law”) and a law making the relevant amendments to other legislation of the Russian Federation<sup>11</sup>. The adoption of the CSD Law is a major milestone on the road to building an efficient record-keeping system for the Russian securities market.

NSD meets most of the criteria contained in the CSD Law, and is in fact the only contender for the role of the CSD. It is planned that NSD will become Russia’s CSD in 2012.

Under the CSD Law, the regulators (Russia’s Ministry of Finance and the Federal Service for Financial Markets (FSFM)) are to adopt a number of regulations governing the procedure for granting the status of the CSD and setting out further requirements for the CSD’s internal regulations.

NSD will need to bring its operations into full compliance with the CSD Law, draft some internal regulations meeting the requirements imposed by the FSFM, and submit an application for the grant of the CSD status. Under the CSD Law, the FSFM has four months to review the submitted documents, and upon expiry of that period, the regulator is to take a decision to grant or refuse NSD’s application for the CSD status.

If and when NSD is granted the CSD status, it will become entitled after 1 July 2012 to open nominee accounts for foreign CSDs and ICSDs. Currently preparations are underway to open such accounts for ICSDs. NSD also plans to open nominee accounts for the CSDs that are AECSD members, in line with its plans to develop the regional settlement network. Currently, NSD has accounts with the CSDs of Azerbaijan, Armenia, Belarus, and Kazakhstan. The possibility to open accounts for foreign nominees will make it easier for a large number of foreign investors acting through the ICSDs to have access to the Russian securities market, and will attract additional investments into Russia.

<sup>11</sup> Federal Law of 7 December 2011 No. 414-FZ «On the Central Securities Depository», Federal Law of 7 December 2011 No. 415-FZ «On Making Amendments to Certain Legislative Acts of the Russian Federation in Connection with the Adoption of the Federal Law «On the Central Securities Depository».



The CSD Law imposes some additional requirements on the interaction between the CSD and registrars. This will require both parties to make modifications to the technology, but, in the long run, it should result in a more reliable settlement system and put in place the necessary guarantees of finality of transactions processed by the CSD.

Within one year after becoming the CSD, NSD will be required to open the CSD's nominee accounts in all share registers falling within the scope of Article 24 of the CSD Law. Other securities depositories will not be able to open nominee accounts in those registers. This will necessarily result in the centralization of equities safekeeping and settlement function, and, as a consequence, a significant increase in the quantity of assets safekept at NSD.

Under the CSD Law, NSD will be fully compliant with the SEC's Rule 17f-7 and the additional requirements imposed by the Association of Global Custodians. This will enable foreign institutional investors to keep their assets through local subcustodians at NSD, which will reduce their costs and boost their interest in the Russian securities market.

The creation of the CSD in Russia will represent a major milestone towards the further development of the securities market infrastructure and increasing Russia's investment attractiveness.





## INTEGRATION OF NSD, DCC AND RTS SETTLEMENT CHAMBER

One of the main strategic goals for 2012 is business integration of NSD, Closed Joint Stock Company "Depository Clearing Company" ("DCC") and RTS Settlement Chamber, undertaken by the shareholders and managers of the MICEX-RTS Group in order to increase the competitiveness and efficiency of the MICEX-RTS Group.

The company to be created as a result of the integration of NSD, DCC and RTS Settlement Chamber ("United Company") is to become the Central Securities Depository and a leading safe-keeping and settlement infrastructure institution among the CSDs of the CIS countries.

NSD has experience in successful operational and legal integration, as NSD was set up in 2010 through merger of NDC with and into MICEX SH. The principle underlying the reorganization was to ensure reliability and continuity of all business processes. The merger was completed within the required time frame and opened up new possibilities for improving the efficiency of the securities depository's settlement processes and functionalities, and for reducing the customers' costs and improving the quality of services provided to them. NSD draws upon this experience and expertise in its current integration processes.

The creation of the United Company will make it possible to offer market participants an optimal range of services containing the best quality services of the companies being united, increase the operational efficiency and reduce customers' costs by introducing a common interface and offering a possibility to settle all transactions using a single account.

The following key goals are to be achieved as a result of the integration of NSD, DCC and RTS Settlement Chamber:

- create the key component of the settlement business of the MICEX-RTS Group;
- consolidate the settlement infrastructure on the Russian securities market;
- create the infrastructure for Russia's Central Securities Depository;
- significantly increase the quantities of shares on deposit as a result of qualifying as an "Eligible Securities Depository" under Rule 17f-7 and, as a consequence, attracting foreign investors' assets;
- create a single product range containing the best service offerings of the companies being united;
- develop products and introduce new services demanded by the market, in particular, securities lending and borrowing, settlement using the Central Counterparty (CCP), being one of the companies of the MICEX-RTS Group;
- improve the tariff policy;
- simplify the mechanisms for settlements with the customers and counterparties of the United Company;
- streamline the business processes and optimize the operational expenses at the United Company and increase its efficiency;
- reduce the participants' costs owing to the introduction of the single interface for interacting with the settlement depository;
- create an efficient staff at the United Company by picking the best employees from the companies undergoing consolidation.

The integration process will be based on the following principles:

- minimize change for the customers, primarily, with respect to the channels to deliver services to our customers and the techniques used to interact with customers and counterparties;
- minimize the need to redistribute the roles and functions among the employees of the companies being integrated while avoiding duplication of functions and telecommunication channels; and
- minimize the change in the processes and regulations of operation, information technology and location of employees.

The first to occur will be operational integration of the companies, which may be conventionally divided into four phases:

- Phase One: launch of the integration;
- Phase Two: the settlement business will be moved to NSD (i. e., NSD will provide settlement of RTS exchange trades);
- Phase Three: NSD will receive the status of the Central Securities Depository and begin to operate as a United Company;
- Phase Four: the United Company will begin to develop in accordance with the approved development strategy.

The question of legal integration, i. e. whether DCC and RTS Settlement Chamber would continue to exist as legal entities, will be decided by year-end 2012.



## COMPANY INFORMATION

(as of 1 May 2012)

### Company name

National Settlement Depository

### Documents

Certificate of State Registration of a Credit Institution No. 3294 issued on 27 June 1996 by the Central Bank of the Russian Federation.

Certificate of entry of a record on the Unified State Register of Legal Entities regarding a legal entity registered before 1 July 2002 issued on 30 August 2002 No. 3294 by Interdistrict Inspectorate No. 39 of the Ministry of Taxes and Levies of Russia for the city of Moscow.

Licence No. 3294 to conduct banking transactions issued on 3 November 2010 by the Central Bank of the Russian Federation.

Licence No. 177–12042–000100 of the professional participant of the securities market to conduct depository activities, issued on 19 February 2009 by the Federal Service for Financial Markets of Russia. The licence is perpetual.

Licence No. 177–08462–000010 of the professional participant of the securities market to conduct clearing activities, issued on 19 May 2005 by the Federal Service for Financial Markets of Russia. The licence is perpetual.

Licence LZ No. 0022179, registration No. 9804 X to provide technical support of encryption (cryptographic) tools issued on 29 November 2010 by the Centre for Licensing, Certification and Protection of State Secrets of the Federal Security Service (FSB) of Russia. The Licence is valid until 27 June 2013.

Licence LZ No. 0022180, registration No. 9805 U to provide services in the area of encryption of information, issued on 29 November 2010 by the Centre for Licensing, Certification and Protection of State Secrets of the Federal Security Service (FSB) of Russia. The Licence is valid until 27 June 2013.

**Registrar**

Registrar Society "STATUS" Closed Joint-Stock Company

Licence No. 10-000-1-00304 of a professional securities market participant to maintain share registers, issued on 12 March 2004 by the Federal Commission for the Securities Market of the Russian Federation. The licence is perpetual.

**Banking Details**

Bank Name:	Department No. 1 of the Moscow GTU of the Bank of Russia
Correspondent account:	30105810100000000505
Bank ID (BIK):	044583505
OGRN (main state registration number):	1027739132563
TIN/KPP codes:	7702165310 / 775001001

**Place of business**

Sredny Kislovsky Pereulok, 1/13, Bldg. 8,  
Moscow, 125009, Russia

**Contact details***Mailing address:*

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*Krasnye Vorota Supplementary Office:*

Spartakovskaya Street, 12, Moscow 105066

Tel.: (495) 234-48-27, (495) 745-81-22

Fax: (495) 956-09-38

E-mail: [info@nsd.ru](mailto:info@nsd.ru)

[www.nsd.ru](http://www.nsd.ru); [www.isin.ru](http://www.isin.ru)



## ADDENDUM

### **ON TRANSACTIONS DEEMED TO BE MAJOR AND INTERESTED PARTY TRANSACTIONS**

During the reporting year, NSD did not carry out any transactions deemed to be major under the Federal Law dated 26 January 1995 No. 208-FZ «On Joint-Stock Companies».

During the reporting year, NSD carried out transactions qualified as interested party transactions under the Federal Law dated 26 January 1995 No. 208-FZ «On Joint-Stock Companies», and approved by the Supervisory Board and the General Meeting of Shareholders.

Information about the mentioned above transactions is available on NSD's website.

