



**RESULTS OF THE YEAR 2012  
AND DEVELOPMENT PROSPECTS  
OF NSD**

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Dear Colleagues,

The assignment of central securities depository (CSD) status to National Settlement Depository (NSD) marked a major milestone for the Russian securities market in 2012. The introduction of the central part of the securities settlement infrastructure in the securities market will contribute to a more transparent recordkeeping of ownership rights, improve the settlement system performance, and facilitate foreign investors' access to the Russian securities market.

It would have been impossible to obtain CSD status without successful merger between NSD and Depository Clearing Company (DCC). The alignment and standardization of products and pricing policies of the two leading settlement depositories and, as a result, seamless migration of DCC's clients to NSD allowed professional securities market participants to start enjoying benefits offered by the newly established central securities depository.

As an infrastructure organization, NSD has established the Customer Committee (Central Securities Depository Customer Committee), which will enable NSD to better understand the needs of market participants and offer mutually beneficial pricing, product and service solutions.

A key role in the implementation of the said projects was played by NSD's Supervisory Board comprised of representatives of NSD's major customers and an independent director. In 2012, the Supervisory Board held 20 meetings at which decisions were made on various issues related to corporate governance, pricing policy, budgeting, and risk management improvement, and steps were taken to control the implementation of NSD's top priority projects and current operational results.

At present, NSD's management bodies are making every effort to improve and extend the product range of the post-trade infrastructure in the Russian financial market and make it more attractive for investors.

I would like to extend thanks to NSD's senior managers 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.

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





Dear Customers, Shareholders, and Partners,

The year 2012 was probably the most difficult, yet the most interesting year for NSD over the company's entire history.

NSD managed to accomplish the objective set by its shareholders, i.e. to successfully complete the company's merger with DCC and Settlement Chamber RTS. The merger enabled NSD to achieve synergy by retaining popular products and services offered by the merging companies, while reducing costs, as well as to ensure the required level of operational reliability and business continuity. Besides, similar to the merger with MICEX Settlement Chamber in 2010, we have proved that we are capable to build a team that has unique corporate culture and brings together professionals from absolutely different companies.

In November 2012, NSD was granted central securities depository (CSD) status, which marked a new milestone in the development of the Russian financial market. As a central securities depository, NSD will substantially increase the speed and reliability of settlements, while reducing their costs. Laws have been passed that contain provision on finality of settlement made through a CSD. Foreign nominee accounts that the CSD is now authorized to open for international settlement and clearing systems will enhance the level of investor protection. All such changes will undoubtedly have a positive effect on the attractiveness of the Russian market for investors.

In 2012, regulators and market participants paid special attention to NSD's risk management system. To be granted the CSD status, we had to show that risk management at NSD was adequate to such an important role, and we have managed to do this. In June 2012, NSD successfully completed an operational audit (ISAE 3402), and in December 2012 Thomas Murray recognized our efforts in this area by upgrading NSD's CSD rating from A+ to AA- with stable outlook.

In 2012, NSD was working hard to extend its product range. In particular, we started offering settlement services across all markets of the united Moscow Exchange. As part of the merger with DCC and Settlement Chamber RTS, we have launched a new settlement technology for OTC securities transactions on a delivery versus payment basis. Not only does the new technology reflect the service popular among market participants, but it also offers a brand new OTC settlement solution, i.e. settlement on a delivery versus payment basis with multilateral netting. The development of yet another pilot technology unique for the Russian market (collateral management in repo transactions with the Bank of Russia) is now at the final stage. Everything is ready for the official launch of a Repository for OTC repo and currency swap transactions. As part of the establishment of a Center of Corporate Information, we have developed a number of new information services in demand by our customers.

In 2012, NSD significantly improved its key operational performance indicators, including the amount of securities held in custody and cash turnovers in customers' bank accounts with NSD that reached RUB 261 trillion.

Needless to say, we are not going to rest on our laurels. We have a business development strategy approved by the Supervisory Board and are planning our work in accordance with the existing road maps.

I would like to sincerely thank our customers, shareholders, and partners for their trust and support and say that we are confident of our success!

Eddie Astanin  
Chairman of the Executive Board, NSD



## POSITION IN THE SECURITIES INDUSTRY

### NSD AS A CENTRAL PART OF RUSSIA'S SECURITIES SETTLEMENT AND DEPOSITORY INFRASTRUCTURE

National Settlement Depository ("NSD") is a member of the Moscow Exchange Group and a provider of depository, settlement, banking and related services to financial market participants.

NSD is a central securities depository in the Russian securities market and offers its services with respect to both securities referred to in the Federal Law No. 414-FZ "On the Central Securities Depository" dated 7 December 2011, and other Russian and foreign equity and debt securities.

NSD settles both on-exchange and OTC trades in securities and is focused on providing settlement services for the Moscow Exchange Group's markets. NSD acts as:

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

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

NSD is a direct participant in the Bank of Russia's Real Time Gross Settlement System (BESP).

NSD plays a key role in the Russian debt market, acting as the head depository for bond issues. NSD performs the safekeeping of global certificates and maintains ownership records for 100% of the federal loan bond (OFZ) issues and 99% of the corporate and regional (both subfederal and municipal) bond issues.

To be authorized to act as a Repository in the Russian financial market, NSD has implemented all necessary

technical solutions and prepared required legal and regulatory documents. In particular, NSD has notified the Russian Federal Service for Financial Markets of its intention to keep a register of repo and currency swap contracts.

NSD acts as the National Numbering Agency (NNA) in Russia responsible for assigning ISIN and CFI codes for Russian securities and participates in the establishment 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, and its principal objective is to assign ISIN and CFI codes for CIS countries' securities and to assist the CIS countries in establishing their own NNAs.

As a participant of the international securities settlement infrastructure, NSD supports settlements in global financial markets through accounts directly held with Clearstream Banking S.A. ("Clearstream") and Euroclear Bank S.A./N.V. ("Euroclear"). NSD provides its customers access to the securities markets in the CIS countries through interdepository securities accounts held with the central securities depositories of Azerbaijan, Armenia, Belarus, Kazakhstan, and Ukraine.

As a central securities depository in the Russian securities market, NSD is authorized to open foreign nominee accounts for foreign CSDs and international settlement and clearing systems. In December 2012, NSD opened a foreign nominee account for Euroclear, and now NSD is actively liaising with certain other foreign settlement infrastructure organizations with the aim of opening such accounts for them.

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



# NSD AS A CENTRAL SECURITIES DEPOSITORY

## ASSIGNMENT OF CSD STATUS

On 7 December 2011, following the lengthy discussions at legislative bodies, as well as amongst regulators and financial market participants, the Federal Laws "On the Central Securities Depository" and "On Amendments to Certain Legislative Acts of the Russian Federation Related to the Adoption of the Federal Law "On the Central Securities Depository" were passed. The laws took effect on 1 January 2012 (save for the provisions regarding the possibility to open foreign nominee securities accounts and the provisions regarding the possibility to open depository receipt program securities accounts, which were to take effect on 1 July 2012 and 1 January 2013, respectively). The laws describe the legal status of a CSD and the procedure for granting such status, and contain the rules governing control and supervision over a CSD's activities.

On 6 November 2012, the Russian Federal Service for Financial Markets (FSFM) granted CSD status to NSD. This followed the long process that involved both the FSFM that was responsible for devising detailed regulatory requirements to a CSD's activities, and NSD that worked on making its IT systems and internal regulations adequate to the new status.

Obviously, the establishment of a central securities depository in the Russian securities market will dramatically improve the securities settlement infrastructure. In particular, the mechanism of safekeeping and recordkeeping of most securities actively traded in the market will be simplified; it will become easier for foreign investors to trade in the Russian market; the speed of trade execution will increase (to achieve real-time execution), while settlement costs will drop; and, thanks to a common settlement infrastructure and unified trade execution rules, risks will be reduced. In addition, market participants will be able to improve settlement automation by choosing one of the electronic communication formats offered by NSD, which is most convenient for them (SWIFT or electronic data interchange (EDI)).

The changes made to the Russian securities settlement infrastructure would make the Russian securities market more attractive for investors and increase its liquidity by allowing market participants to reduce their settlement costs and minimize their risks.

## FOREIGN NOMINEE ACCOUNTS

Following the entry into force of the relevant provisions of the Federal Law "On the Central Securities Depository" and the assignment of the CSD status to NSD, foreign CSDs and international settlement and clearing systems gained an opportunity to open foreign nominee accounts with NSD. At the same time, foreign CSDs are now able to open foreign nominee accounts with Russian custodians. Foreign nominee accounts allow to significantly reduce foreign investors' risks in the Russian market and achieve equality of rights among domestic and foreign investors.

The possibility for foreign CSDs and international settlement and clearing systems to open foreign nominee accounts will enable NSD to continue its integration into the global settlement system by improving its bilateral relationships with the CSDs of CIS countries, Euroclear, and Clearstream and by opening further securities accounts for new settlement institutions that had no direct access to the Russian market before NSD was granted CSD status.

RULE 17F-7<sup>1</sup> AND SETTLEMENT FINALITY

The official CSD status and the enactment of specific laws were the decisive factors in recognizing NSD as an “eligible securities depository” under Rule 17f-7. This will allow U.S. investors to increase their exposure to investments in the Russian market and substantially reduce their transactional costs thanks to the possibility to transfer their assets from accounts held with registrars to accounts with the CSD.

The new rules of interaction between the CSD and registrars have helped to definitively resolve the long-standing issue relating to settlement finality in the Russian market. The need to use electronic data interchange when interacting with the CSD and to submit matching trade instructions in correspondence with CSD foreign nominee accounts, the precedence of registration details held by the CSD over those held by registrars, and the need for automated account balance reconciliation show that settlements made through the CSD are final.

The definitive resolution of the settlement finality issue and recognition that NSD meets the requirements of Rule 17f-7 will increase foreign institutions’ confidence in the Russian market, and help attract new investors and raise new investments from those investors who already work in the Russian market.

NSD’S CUSTOMERS

NSD’s customer policy is aimed at improving the quality of services and meeting, as much as possible, our customers’ demand for depository, settlement, information, and other services. As at the end of 2012, NSD had 1,681 customers, including professional securities market participants from across Russia, as well as non-Russian residents. In 2012, the number of NSD’s customers decreased by 389 due to certain statutory restrictions imposed on participants.

In 2012, one of NSD’s top priorities was the promotion of such key services, as settlement on a delivery versus payment (“DVP”) basis on NSD’s accounts with international settlement and clearing houses, and securities transfers between securities accounts with cash settlement control. Thanks to our marketing efforts, the number of customers using DVP settlement services on the accounts held by NSD with Euroclear and Clearstream increased by 55 over the year, while the number of DVP settlement transactions made on such NSD’s accounts with Euroclear and Clearstream totaled 1,854, which is 1,000 higher than in the previous year. The number of clients transferring securities between securities accounts with cash settlement control increased by 73.

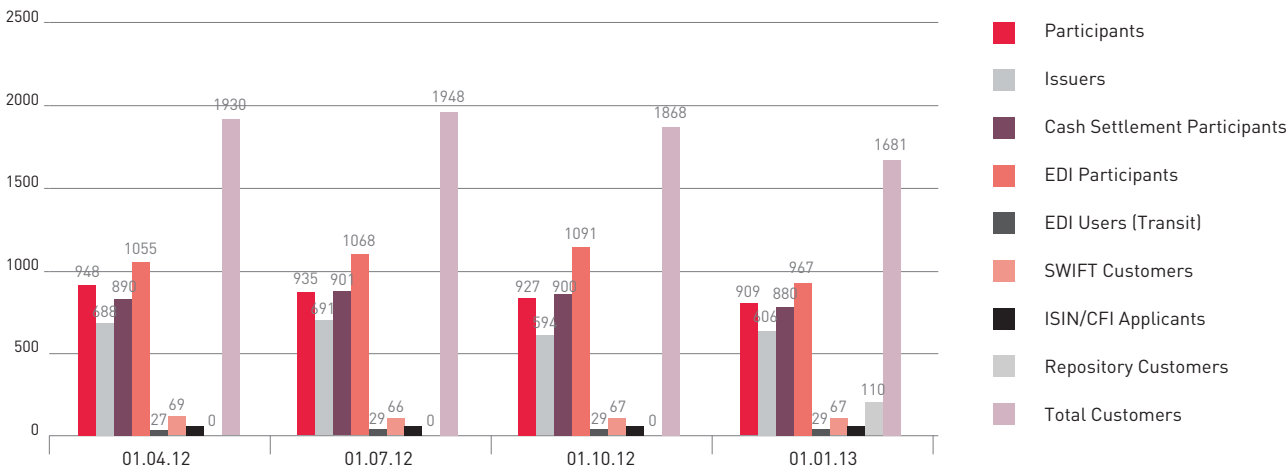
In March 2012, the NSD Customer Committee (Central Securities Depository Customer Committee) was established. The Customer Committee members are representatives of 22 customers, 5 registrars, 1 stock exchange, and 1 clearing house. In accordance with the applicable laws, the Customer Committee is vested with broad authority, including authority with respect to NSD’s pricing policy, risk management rules, and customer relations, which allows the company to take account of market participants’ opinions when making decisions that affect customers. In 2012, the Customer Committee held 5 meetings (3 in-person meetings and 2 absentee meetings).

In 2012, 110 companies entered into repository services agreements with NSD’s Repository, two of which registered their first Master Agreement Questionnaire and a contract under their respective repository service agreements. To develop and promote repository services offered to our customers, the Repository Committee comprised of NSD’s customers’ representatives was established within NSD’s Executive Board. The Repository Committee is responsible for analyzing customers’ needs and making recommendations as to the Repository’s tariffs and services improvement. In 2012, the Repository Committee held one meeting.

In 2012, NSD took a number of measures to launch the securities lending market. Securities lending allows securities lenders to receive additional return, while borrowers have an opportunity to settle their trades when they do not have necessary securities. The first stage of the securities lending project involved securities lending technology testing. Over the reporting year, 35 participants (banks and financial companies) signed up to the service, and more than 30 actual transactions were made. NSD plans to continue improving the securities lending market in 2013.

Yet another major project implemented in 2012 was preparation for the launch of a new joint service offered by NSD and Bank of Russia – Bank of Russia’s direct OTC repo with a securities basket. 91 NSD’s customers (mainly banks that actively use existing funding technologies) showed their interest in the new service.

To keep our customers informed of NSD’s new plans and forthcoming major events, as well as to actively promote our key services, we arranged various seminars and conferences whose participants received an opportunity to get information about new services and settlement technologies from NSD’s senior managers and experts and provide their feedback. In 2012, NSD arranged 12 seminars for customers, two of which were arranged for customers from Russian regions. For those who could not personally attend such seminars, we arranged two webinars during which customers had an option to ask questions and make proposals for the development of NSD’s services.



<sup>1</sup> Rule 17f-7 of the Investment Company Act of 1940





## MAJOR PROJECTS

### NSD AND DCC MERGER

As part of merger between MICEX and RTS, the decision was made to merge two settlement depositories for the purpose of establishing a common securities settlement infrastructure and concentrate post-trade services in a single company. NSD was chosen as a platform for the establishment of a united depository that would afterwards apply for CSD status. By April 2012, NSD became the principal shareholder of Depository Clearing Company ("DCC") with more than a 97% stake; and by July 2012, NSD increased its stake almost to 99.998%.

One of the key requirements to be met during the merger was alignment and standardization of the products offered by both merging settlement depositories and retention of the most popular products and services. First, the united depository offered its customers the possibility to settle trades on stock exchanges that were earlier serviced by RTS Group companies only. NSD started providing cash and securities settlement services on the RTS Standard market from May 2012, the FORTS market from late August 2012, and the Classica market from October 2012, thus fully replacing DCC and Settlement Chamber RTS on all the markets serviced by Moscow Exchange.

Concurrently with the launch of stock exchange services, NSD worked on introducing OTC services most needed by DCC's customers. The key OTC services introduced by NSD are settlement services on a delivery versus payment (DVP) basis that involve trade settlement through accounts held with foreign banks, trade settlement during clearing sessions, prioritization of instructions, and use of tolerance matching.

The implementation by NSD of DCC's key settlement services allowed NSD to start transferring investors' assets from DCC to NSD. To facilitate and speed up the process, registrars used by DCC for the safekeeping of securities were replaced by NSD, which significantly accelerated the transfer of securities by customers

and allowed them to reduce related costs. By the end of 2012, most of the assets were transferred to accounts held with NSD. As a result, the value of securities held by NSD in custody rose by 48% to RUB 12.049 trillion, while the total number of securities held in customers' accounts increased seven-fold (to 18,119 billion securities).

In addition to successful transfer of settlement services and customers' assets to the united settlement depository, NSD started working on the improvement of its pricing model. In doing this, NSD has managed to integrate the two teams of professionals with different corporate cultures, while at the same time facilitating market participants' migration to the new securities settlement infrastructure. The successful completion of the merger allowed NSD to obtain CSD status (thus strengthening its position in the securities market) and continue improving the range of its products and services for the new customer base.

### CLEARING AND CHANGES IN THE CHART OF ACCOUNTS

In 2012, significant preparatory work was undertaken to ensure switch, from 1 January 2013, to new clearing and settlement rules for on-exchange and OTC trades, such rules being compliant with the requirements of the Federal Law No. 7-FZ "On Clearing and Clearing Activities" dated 7 February 2011. In particular, new contract forms were drafted that govern relationships with customers and clearing houses in the course of trade settlements; new NSD's Clearing Rules were approved by the Federal Service for Financial Markets; bank account numbers were changed for all NSD's customers; trading bank accounts and trading securities accounts were opened for all customers; and significant changes were made to the relevant software products and systems. Thanks to such comprehensive approach, NSD's customers were able to start using new bank accounts to settle both on-exchange and OTC trades as early as from the first business day of 2013.



#### **DEVELOPMENT OF DELIVERY VERSUS PAYMENT (DVP) SETTLEMENT SERVICES**

In October 2012, NSD successfully completed the development of one of its strategic products – settlement on a delivery versus payment basis (DVP models 1, 2 and 3). The new service represents a significant improvement of the securities delivery mechanism with cash settlement control that existed earlier at NSD. The service uses the capabilities of NSD's new clearing platform that allows customers to settle trades using DVP model 1 (settlement on a gross (trade-by-trade) basis), DVP model 2 (gross settlement of securities followed by net settlement of cash), or DVP model 3 (net settlement of both securities and cash). The new DVP version allows customers to use a single instruction for securities and cash, settle trades both in Russian rubles and foreign currencies (USD or Euro), and prioritize execution of instructions.

In addition, everything is made to roll out a version of the DVP settlement service that will allow participants to settle their trades on a DVP basis using their foreign currency bank accounts with foreign banks (J.P. Morgan & Co., New York; Citibank, New York). This service is similar to the service earlier offered by DCC and is aimed at facilitating the transition of DCC's former customers to the new service. The possibility to settle trades on a DVP basis through foreign banks will be offered by NSD early in 2013, whereupon DCC will cease providing such service.

#### **SPEEDY SETTLEMENT BETWEEN NSD AND COMMERCIAL BANK "J.P. MORGAN BANK INTERNATIONAL" (LIMITED LIABILITY COMPANY)**

In December 2012, the Speedy Settlement Scheme between NSD and Commercial Bank "J.P. Morgan Bank International" (Limited Liability Company) was successfully implemented. The Scheme is aimed at facilitating the transition of the latter's customers to making trades through NSD until the opening of CSD nominee securities accounts in shareholder registers, which will allow NSD to start acting as a CSD on a full

scale basis. The Scheme applies to more than 160 most liquid securities, and will allow customers of NSD and Commercial Bank "J.P. Morgan Bank International" (Limited Liability Company) to substantially reduce their time and financial costs for transfer of securities between securities accounts with depositories. The Scheme established between NSD and Commercial Bank "J.P. Morgan Bank International" (Limited Liability Company) became the fourth and was added to similar Schemes NSD had established with ING BANK (EURASIA) ZAO (in 2007), ZAO CB Citibank (in 2010), and VTB Bank (in 2011).

#### **REGISTRATION OF OTC TRANSACTIONS (REPOSITORY)**

In autumn 2012, NSD completed the main phase of the OTC repo and derivatives trade registration project and offered this service to market participants. On 16 October 2012, NSD together with its customers started operational testing of the Repository in order to test the system performance and allow market participants to familiarize themselves with reporting formats. More than 80 customers took part in such operational testing and registered over 200 messages (both master agreements, and contracts entered into thereunder) in the test register of contracts.

On 1 February 2013, NSD notified the Russian Federal Service for Financial Markets of its intention to keep a register of repo and currency swap (derivative) contracts.

Initially, NSD will register repo and currency swap transactions. With effect from 1 October 2013, the list of instruments that can be registered will be substantially extended fully in compliance with the applicable laws.

#### **NSD'S CENTER OF CORPORATE INFORMATION**

In 2012, NSD continued its efforts to establish a Center of Corporate Information (CCI) in the Russian financial market.

In particular, NSD entered into an information exchange agreement with the Russian Federal Service for Financial Markets, under which the parties will exchange corporate information. The negotiation of a similar agreement with the Bank of Russia is close to completion. In addition, NSD and the Bank of Russia are discussing an initiative under which the Bank of Russia will provide NSD with information on securities of credit institutions and their reports and accounts.

A memorandum was signed with SIX Financial Information for information exchange and participation in the development of the Russian CCI. An agreement for disclosure of information on foreign securities and corporate actions in the Russian financial market is at the final stage of the negotiation process. NSD started providing information to Russian news agencies and is currently discussing the same possibility with Western news agencies.

New information services were introduced, such as SIR NSD (Securities Information Review, a database containing securities details and related information), a corporate information newsletter, and the Library of Issuance Documents. A fee schedule and a standard information disclosure agreement form were approved. NSD also provides certain customized information services upon customers' requests.

In addition, NSD extended the list of standardized information messages regarding securities and corporate events, as disseminated through the Russian and English versions of NSD's website (including, through NSD's Depository Information Service Center).

#### **MOVE TO NEW OFFICES**

In 2012, NSD moved to new offices at 12 Spartakovskaya Street, Moscow. Staff and equipment relocation did not affect the continuity of business processes. The new state-of-the-art and ergonomic offices can accommodate all the employees of the integrated company, and their convenient location allows NSD to arrange large-scale trainings and presentations for customers.



## PERFORMANCE IN THE KEY AREAS OF BUSINESS

### NSD'S OPERATIONAL HIGHLIGHTS OF 2012

	01.01.2012	01.01.2013	Increase/ Decrease, %
<b>GENERAL INFORMATION</b>			
Number of customers <sup>2</sup>	2,070	1,681	-18.79
Including:			
number of participants	960	909	-5.31
number of issuers	844	607	-28.08 <sup>3</sup>
number of cash settlement participants	888	880	-0.90
Number of participants' securities accounts <sup>4</sup>	2,743	3,467	26.39
Number of customers' bank accounts	3,043	3,278	7.72
<b>SECURITIES HELD IN CUSTODY</b>			
Value of securities held in custody <sup>5</sup> (in billions of RUB)	8,139	12,049	48.04
Quantity of securities held (in billions)	2,562	18,119	607.22
Quantity of securities issues accepted for servicing	4,193	6,655	58.72
Number of issuers whose securities are held in custody at NSD	2,060	3,707	79.95
<b>CASH SETTLEMENTS</b>			
Cash turnover in customers' bank accounts (in billions of RUB)	239,609	261,563	9.16
Cash turnover in the course of trading on the MICEX-RTS Group's markets (in billions of RUB)	150,710	122,871	-18.47
Cash turnover in NSD's correspondent account with the Bank of Russia via the BESP System (in billions of RUB)	162,259	358,622	121.02
<b>BOOK-ENTRY TRANSFERS</b>			
Quantity of book-entry transfers processed over the year (in thousands)	2,725	2,466	-9.50
Market value of securities transferred (in billions of RUB)	95,885	143,543	49.70

<sup>2</sup> The figure is based on the number of agreements entered into.

<sup>3</sup> The number of issuers dropped due to the closing of issuer accounts on which no transaction was made over the period of more than 12 months since the redemption of the last bond issue.

<sup>4</sup> Securities accounts of all types: owner's securities accounts, interdepository securities accounts, and trustee's securities accounts.

<sup>5</sup> The value of equities and units of unit investment funds is calculated based on their market value; the value of bonds is measured at their nominal value.

## NSD'S OPERATIONAL HIGHLIGHTS OF 2012

	01.01.2012	01.01.2013	Increase/ Decrease, %
<b>CORPORATE ACTIONS PROCESSING</b>			
Quantity of corporate action transactions processed over the year	4,336	5,493	26.68
Quantity of P&I payments processed by NSD as a nominee over the year	26,854	23,678	-11.83
<b>PAYING AGENT SERVICES</b>			
Number of funds transfers (P&I payments) made over the year via NSD as a paying agent	41,612	43,405	4.31
Amount of funds transfers (P&I payments) made over the year via NSD as a paying agent (in billions of RUB) <sup>6</sup>	1,350	287	-79.41
<b>TRANSFER OF PAYMENTS MADE VIA NSD<sup>7</sup></b>			
Number of funds transfers (P&I payments) made over the year via NSD as the depository responsible for centralized safekeeping of securities	—	7,876	—
Amount of funds transfers (P&I payments) made over the year via NSD as the depository responsible for centralized safekeeping of securities (in billions of RUB)	—	627,6	—
<b>NATIONAL NUMBERING AGENCY SERVICES</b>			
Number of ISINs and CFIs assigned on request of market participants over the year	995	1,695	70.35
Cumulative total number of ISINs and CFIs assigned on request of market participants	6,508	8,203	26
<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>8</sup>	55,504	59,588	7.35
<b>FINANCIAL INDICATORS<sup>9</sup></b>			
Net income (in millions of RUB)	2,287	3,375	47.57
Total assets (in millions of RUB)	107,731	113,015	4.90
Shareholders' equity (in millions of RUB)	6,055	5,831	-3.70
Capital adequacy ratio (N1 ratio), in %	51.9	32.1	—
Liquid assets maturing within the next 30 calendar days divided by total liabilities (N15 ratio), in %	102.5	103.4	—

<sup>6</sup> This service is only provided with respect to bond issues the state registration of which was made (or identifiers to which were assigned) before 1 January 2012. The amount of funds transfers under this service will decrease gradually until such bond issues are redeemed in full.

<sup>7</sup> This service is only provided with respect to bond issues the state registration of which was made (or identifiers to which were assigned) after 1 January 2012, and with respect to all issues of federal government bonds, regardless of their registration date.

<sup>8</sup> Including requests submitted under the agreements in relation to assistance in assigning securities codes.

<sup>9</sup> The indicators are calculated in accordance with Bank of Russia's Regulation No. 2089-U "On the Procedure for the Preparation of Annual Reports by Credit Institutions" dated 8 October 2008.

## SETTLEMENT AND DEPOSITORY SERVICES

### SECURITIES SAFEKEEPING

NSD is Russia's largest securities depository in terms of the market value of securities held in custody.

Over the year 2012, the market value of securities held in participants' securities accounts grew 48.04% and exceeded RUB 12 trillion<sup>10</sup>. Such a significant increase in the value of securities held in custody is due to the transfer of assets from DCC to NSD as part of the two companies' merger.

The total quantity of securities held in the participants' securities accounts rose in 2012 seven-fold to 18,119 billion.

Over the last year, the number of serviced securities issues and the number of issuers whose securities are held in custody at NSD increased by 58.72% and 79.95%, respectively. As of 1 January 2013, NSD provided services in respect of 6,655 securities issues of 3,707 issuers.

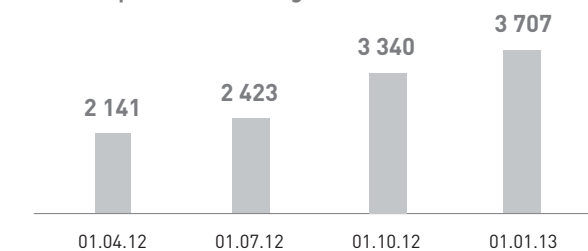
<sup>10</sup> The value of equities and units of unit investment funds is calculated based on their market value; the value of bonds is measured at their nominal value.

In 2012, the number of Russian equities issues and the number of new Russian issuers whose securities are held in custody at NSD more than doubled.

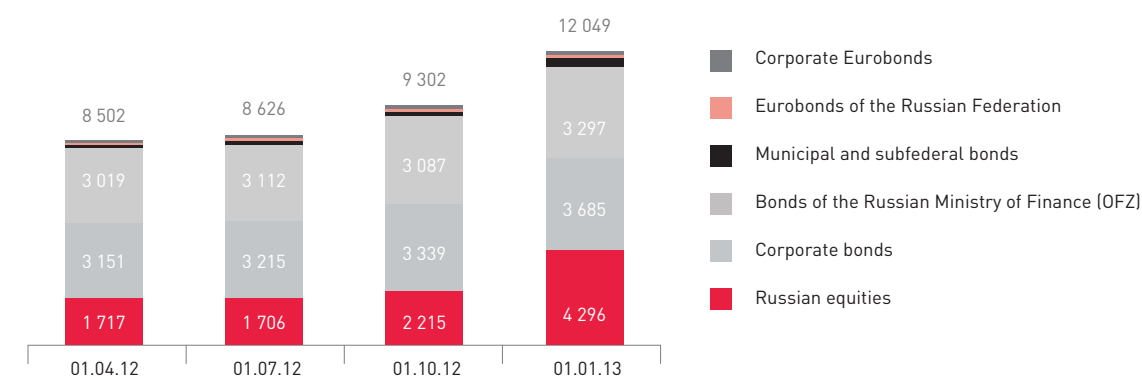
In 2012, NSD continued its drive to expand the list of foreign securities accepted for servicing. Over the year, the number of equity issues of foreign issuers increased by 20%, while the number of corporate Eurobond issues and the number of depository receipts issues rose by 36% and 15%, respectively.

Thus, the percentage of foreign securities issues held in custody at NSD grew 28% against 2011, to reach 18% of the total number of securities issues serviced by NSD.

### Number of issuers whose securities are accepted for servicing



### Value of securities held (in billions of RUB)\*

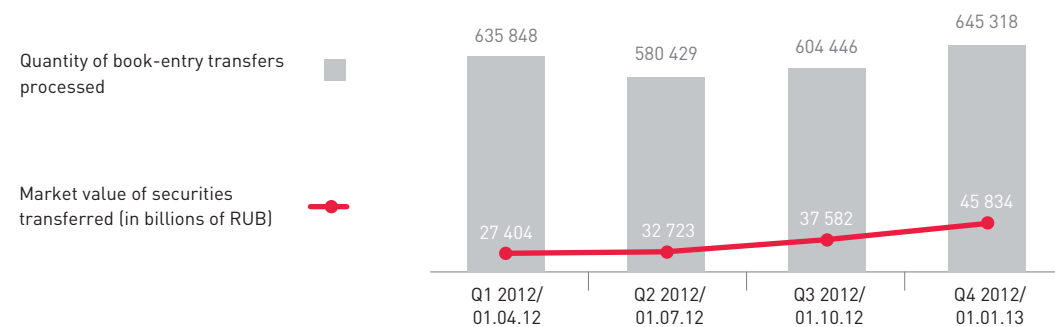


\* The value of equities and units is based on their market value; the value of bonds is based on their nominal value.

## ON-EXCHANGE AND OTC TRANSACTIONS

In 2012, NSD processed 2,466,000 depository transactions, with the market value of securities transferred on its books of record being equal to RUB 143,543 billion, a 49.7% increase year-on-year.

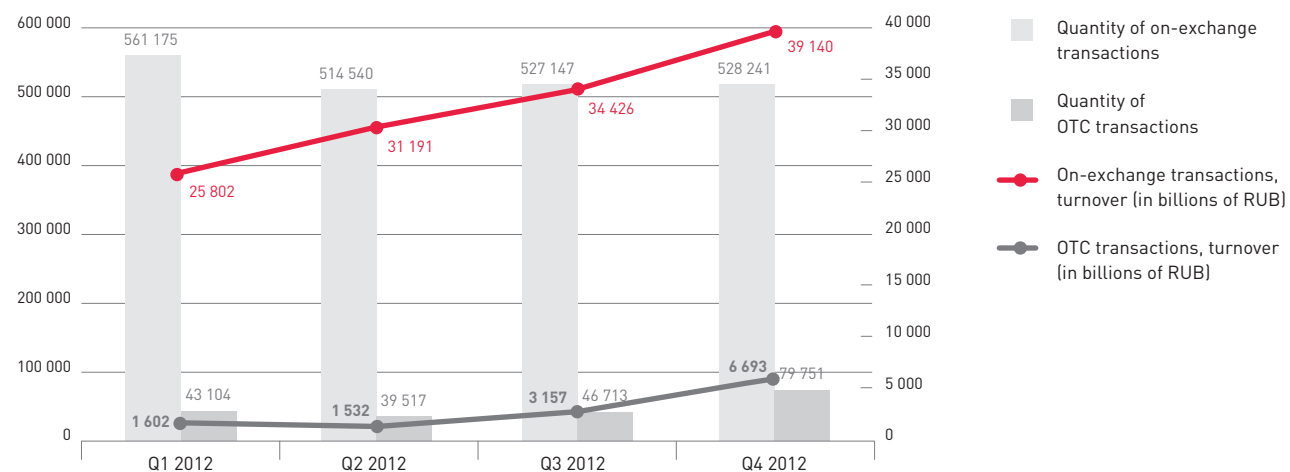
### Quantity of Depository Transactions and Securities Turnover



The breakdown of depository transactions processed in 2012:

- On-exchange depository transactions – 2,131,000;
- OTC depository transactions – 209,100;
- Other transactions (transactions within the same account (attachments, pledges), transactions within issuer accounts, etc.) – 85,500.

### Quantity of On-exchange and OTC Transactions and Securities Turnover



OTC depository transactions include internal transfers of securities between NSD's participants and external transfers between NSD's participants and their counterparties maintaining accounts with other settlement institutions (i.e. accounts maintained with registrars or securities depositories).

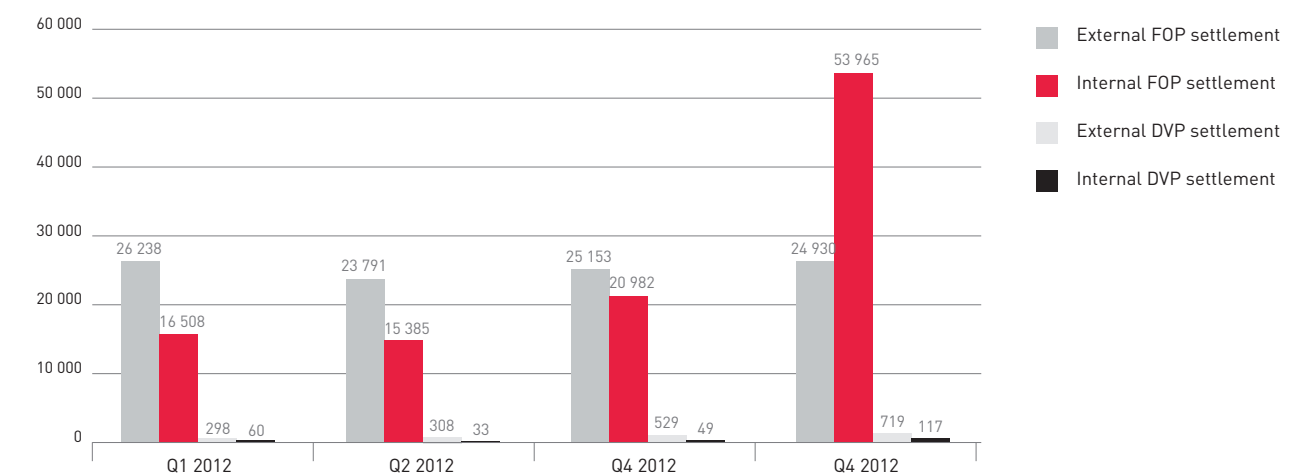
## INTERNAL TRANSFERS

In 2012, our customers carried out 107,099 internal transfers at NSD, including:

- 106,840 FOP transactions; and
- 259 DVP transactions.

OTC depository transactions may be settled on a free of payment (FOP) basis or by transferring securities with the cash settlement control (on a delivery versus payment (DVP) basis).

### Quantity of OTC Transactions



## TRANSACTIONS IN SECURITIES REGISTERS

In 2012, NSD continued its proactive efforts to increase the number of nominee's accounts opened with registrars in the interests of NSD's customers.

With significant input from NSD, the Rules of Communication between the Central Securities Depository and Registrars were devised, which clarify the procedure for information communication between NSD and registrars in connection with transactions on CSD nominee securities accounts. In addition, NSD took measures to update its software required to enable NSD to act as a central securities depository and interact with registrars.

Over the year, NSD opened nominee's accounts with registrars in 1,703 share registers (the number of opened accounts increased by 112% to 3,221) and 109 unitholder registers for unit investment funds. As at year-end, the total number of accounts opened by NSD with registrars was 3,771, a more than 100% increase year-on-year.

As at year-end, NSD worked with 61 registrars (excluding their branch offices).

As a result of the efforts undertaken by NSD in 2012 to promote broader use of EDI in communications with share registrars and unit investment funds registrars, NSD entered into 8 agreements with registrars governing the procedure for the parties' communication



using EDI. In particular, NSD entered into agreements with Registrator-Kapital OJSC, RK Centr-Invest CJSC, Sibirsky Reestr OJSC, Specialized Depository of Sberbank LLC, and other regional and Moscow-based registrars, thus significantly expanding the geographic scope of its EDI communication with registrars.

As at year-end, 37 registrars maintaining share registers and 26 registrars maintaining unitholder registers for unit investment funds used EDI to communicate with NSD.

**TRANSACTIONS WITH OTHER RUSSIAN SECURITIES DEPOSITORIES**

**NSD-DCC Bridge Transactions**

In 2012, NSD used the NSD-DCC Bridge to settle 26,778 transactions worth a total of RUB 1.76 trillion, down 16.98% on 2011.

The number of issuers whose securities are eligible for transfer via the NSD-DCC Bridge increased to 1,623 during the year, with the total number of Bridge-eligible securities issues reaching 2,254.

In November 2012, as a result of the transfer of all assets from DCC to accounts with NSD, the use of the NSD-DCC Bridge was discontinued due to no need to use it any more.

**Speedy Settlement Schemes between NSD and Custodians**

In 2012, special attention was given to improving the Speedy Settlement Schemes (SSS) designed to help customers settle their trades through cross-system securities transfers (without the need to re-register 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 2013, our customers could settle trades in 343 securities issues, compared to 281 issues at end-

2011. The list of securities eligible for the SSS settlement between NSD and Citibank was significantly expanded. As at end-2012, there were 332 securities issues that could be transferred using the SSS. December 2012 saw the launch of the Speedy Settlement Scheme between NSD and Commercial Bank "J.P. Morgan Bank International" (Limited Liability Company). This SSS covers 385 eligible share issues of 260 issuers.

In total, 2,820 transactions worth approximately RUB 137 billion were settled via the SSS.

**Transactions with Other Custodians**

In 2012, NSD continued to process its participants' transactions settled by other Russian securities depositories (such as GPB (formerly known as Gazprombank), Sberbank of Russia, and Rosbank). NSD had 4,136 securities transactions settled worth a total of RUB 50.98 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 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 the period of 2005 to 2012, NSD opened securities accounts with the Central Securities Depository of the Republic of Kazakhstan (2005), the National Depository Center of the Republic of Azerbaijan (2007), the Republican Central Securities Depository of the Republic of Belarus (2008), and the National Depository of Ukraine (2012).

NSD gives special attention to the sections of its website containing information on the CIS central securities

depositories. Website visitors now can have access to news, performance reports and regulatory documents governing securities dealings in the Republic of Belarus and the Republic of Kazakhstan.

**TRANSACTIONS THROUGH INTERNATIONAL CSDs**

In 2012, NSD made further improvements to its settlement services that allow customers to settle their trades via NSD's accounts with international CSDs.

In particular, NSD improved settlement procedures in international markets, and currently allows customers to settle their trades in the markets of the United Kingdom, Germany, Hong Kong, USA, France, and Switzerland. Upon customers' requests, it is possible to extend the list of international markets in which customers may settle trades via NSD's accounts with international CSDs.

Upon customers' requests, NSD may now convert currencies when paying income on foreign securities.

In 2012, the number of trades settled via NSD's correspondent accounts with Clearstream and Euroclear reached 3,802 transactions, up 56.46% compared to 2011, including:

- Clearstream: 165 trades settled on a DVP basis and 398 trades settled on a FOP basis; and
- Euroclear: 1,689 trades settled on a DVP basis and 1,550 trades settled on a FOP basis.

In 2012, the amount of cash DVP settlements in Russian rubles and foreign currencies through Euroclear and Clearstream increased by 106.94% against 2011 and reached RUB 298 billion.

**CORPORATE ACTIONS PROCESSING**

In 2012, NSD processed 5,493 transactions on its books relating to issuers' corporate actions, up 26.68% on 2011, including:

- 4,388 securities entitlement transactions (compiling lists of holders of bearer securities for the purpose of corporate actions relating to P&I payments on bonds, lists of holders of registered securities, and lists of unitholders of unit investment funds) and 450 global transactions (conversions, redemptions, repurchases, consolidation/cancellation of issues, etc.) in respect of Russian securities; and
- 655 transactions to support corporate actions affecting foreign financial instruments (including 410 corporate actions relating to income payments in respect of foreign securities and 245 other corporate actions, such as absentee voting, participation in annual/extraordinary General Meetings of Shareholders/Bondholders, re-certification of securities for securities holders, pari passu rankings of securities, selection of form of dividend payment, Dutch auction, etc.).

**SECURITIES INCOME PROCESSING**

In 2012, NSD, acting as a nominee, made 23,678 fund transfers (P&I payments), down 11.83% on 2011, including:

- 22,673 payments in respect of Russian securities; and
- 1,005 payments in respect of foreign financial instruments.

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

- payments on Russian securities (corporate and regional bonds, Bank of Russia's bonds, registered securities (shares and units of unit investment funds)) in Russian rubles — RUB 31,010.6 million;

- payments on foreign financial instruments (Eurobonds, shares and depositary receipts):
  - payments in Roubles: RUB 36,180 million;
  - payments in US dollars: USD 824 million;
  - payments in Euro: EUR 35 million;
  - payments in Pounds Sterling: GBP 1.055 million; and
  - payments in Hong Kong dollars: HKD 0.025 million,

**CORPORATE ACTIONS PROCESSING IN RESPECT OF ISSUERS’ REORGANIZATION**

The year 2012 saw large-scale reorganizations of Russia’s major issuers.

In October 2012, NSD provided support to the reorganization of Bashneft OJSC. Bashneft OJSC was reorganized through merger of Bashkirnefteprodukt OJSC, Novoil OJSC, Orenburgnefteproduct OJSC, Ufaneftekhim OJSC, and UNPZ OJSC with and into Bashneft OJSC. In the course of the reorganization, NSD provided information support and consulting services to its customers. NSD completed, within the required time frame, exchange of the share issues of the companies being merged into Bashneft OJSC for the latter’s additional issues of ordinary shares (with the application of a stock exchange ratio resulting in fractional shares). By way of stock exchange, 9 issues of additional ordinary shares in Bashneft were placed.

In November 2012, NSD provided support to the reorganization of Bashkirenergo OJSC by way of split up into BESK OJSC and Bashenergoaktiv OJSC. In the course of the reorganization, securities of Bashkirenergo OJSC were exchanged for securities of BESK OJSC (with the application of a stock exchange ratio resulting in fractional shares) and for securities of Bashenergoaktiv OJSC, with the simultaneous merger of the latter company with and into JSC INTER RAO UES.

In December 2012, as part of the reorganization of Ulianovskneft OJSC, NSD exchanged ordinary shares in

NGDU Penzaneft OJSC and SP Nafta-Ulyanovsk CJSC for additional issues of ordinary shares in Ulianovskneft OJSC (with the application of a stock exchange ratio resulting in fractional shares).

Also in December 2012, as part of the reorganization of Novosibirskenergo OJSC through spin-off of Regional’nye Seti OJSC with the simultaneous merger of the latter with and into Regional’nye Elektricheskies Seti OJSC, NSD supported the issuance of shares in Regional’nye Seti OJSC to the holders of ordinary and preferred shares in Novosibirskenergo OJSC, and further exchange of such news shares for shares in Regional’nye Elektricheskies Seti OJSC (with the application of a stock exchange ratio resulting in fractional shares).

In addition, NSD, in connection with the reorganization of issuers, exchanged shares in MTK OJSC for shares in MOEK OJSC; shares in Ammofos OJSC for shares in Cherepovetsky Azot OJSC in the course of the two companies’ merger with and into PhosAgro-Cherepovets OJSC, etc.

**ASSISTING SECURITIES HOLDERS IN CLAIMING TAX BENEFITS**

In 2012, NSD processed and forwarded to the issuers or their paying agents about 4,500 sets of documents received from beneficial owners of securities claiming tax benefits on their income distributions, the same figure as in 2011.

**INFORMATION SERVICES RELATED TO CORPORATE ACTIONS**

In 2012, NSD provided its customers with a wide range of services for the provision of various types of corporate information. Such services were provided both publicly through NSD’s website and directly under information services agreements.

Customers were provided access through NSD’s website to the following information:

- information on securities, issuers, registrars, securities management companies, and other securities market participants;
- information on issuers’ corporate actions, including a schedule of coupon payments, principal redemptions (full or partial), debt amortization, and other corporate events related to bond issues;
- information on securities issues accepted for servicing and securities issues the servicing of which has been discontinued, shareholder meetings, compilation of lists of eligible securities holders, and payment of income on securities; and
- other information provided by issuers and registrars.

The amount of information posted on the Russian version of the NSD’s website grew 25% and reached 12,739 messages.

In addition, NSD significantly extended the list of standardized information messages regarding securities and corporate actions, as posted on both the Russian and English versions of NSD’s website (including in NSD’s Depository Information Service Center). To comply with the requirements set forth by the Russian Federal Service for Financial Markets (Order No. 11-52/pz-n dated 20 October 2011), in 2012, NSD started to disclose information on distributions paid on securities through NSD; such information is disclosed through INTERFAX news agency.

In addition to disclosing such information through INTERFAX news agency, information is also always posted on NSD’s website and sent directly to NSD’s customers.

Besides, NSD sends information on issuers’ corporate actions directly to customers via the remote access system.

On a weekly basis, NSD’s customers receive a Corporate Information Newsletter containing information on securities accepted by NSD for servicing, issuers, shareholder meetings, compilation of lists of eligible securities holders, payment of income on securities, news of issuers and registrars, and other information posted on NSD’s websites (www.nsd.ru and www.isin.ru) over the week.

CASH SETTLEMENTS

SETTLEMENT OF TRADES ON THE MOSCOW EXCHANGE GROUP'S MARKETS

The total value of cash settlements processed through trading accounts to support trading on the Moscow Exchange Group's stock exchange markets over the reporting year was RUB 122,871 billion, including:

- on the Securities Market: RUB 115,682 billion (a 29.7% increase on 2011);
- on the SPCEX Securities Market: RUB 4 billion;
- on the government securities market: RUB 5,927 billion (a five-fold decrease against 2011 due to the transfer of transactions in the secondary market of government securities to the Main Market sector of MICEX Stock Exchange);
- on the derivatives market: RUB 1,258 billion (a 30.13% decrease compared to 2011 due to the integration processes taken place within the Moscow Exchange Group and discontinuance of trading on the derivatives market in September 2012).

The turnover of funds in the bank account of Bank "National Clearing Centre" CJSC (NCC) being used in the settlement of trades on the foreign exchange market reached RUB 46,826 billion, up 19.22% on 2011.

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 4.1 billion in funds on trading accounts in connection with the SPCEX repo transactions.

TRANSACTIONS VIA THE BANK OF RUSSIA'S PAYMENT NETWORK

The turnover of funds in NSD's correspondent account with the Bank of Russia in 2012 grew 76.89% year-on-year to RUB 452,121 billion. The number of payments made using NSD's correspondent account with the Bank of Russia slightly decreased (by 1.62% on 2011 to 672,876 payments).

The turnover of funds in NSD's correspondent account with the Bank of Russia processed via the Bank of Russia's Real Time Gross Settlement System (BESP) grew in 2012 by 121.02% year-on-year to RUB 358,622 billion. The number of payments settled using NSD's correspondent account with the Bank of Russia via the BESP System, increased by 57.30% compared to 2011, reaching 129,855 payments. Such a significant increase in the volume of payments processed through the BESP System is due to the technological upgrade of NSD's software and improvements in customer service in relation to payments using the system.

SUPPORT OF BANK OF RUSSIA'S DEPOSIT TRANSACTIONS

Transactions intended to raise funds in Russian rubles from Russian banks and have such funds deposited with the Bank of Russia are a special type of deposit transactions being used as an instrument to control supply of money in the banking sector as part of the public monetary policy, which helps ensure stability of the Russian ruble.

In 2012, the turnover of cash in customers' bank accounts with NSD in connection with such deposits with the Bank of Russia was RUB 11,143 billion.

PROCESSING OF VNESHECONOMBANK'S DEPOSIT AUCTION TRANSACTIONS

In 2012, the volume of RUB settlements processed in the course of deposit auctions held by Vnesheconombank, the state management company managing pension savings, increased 1.85 times year-on-year to RUB 234 billion.

TRANSACTIONS IN NOSTRO ACCOUNTS IN FOREIGN CURRENCIES

The total turnover of funds settled through NSD's correspondent accounts maintained with foreign financial organizations and ICSDs in support of settlement of on-exchange and OTC transactions in 2012 was as follows:

- in US dollars: USD 31.1 billion (a 49.5% increase on 2011); and
- in Euro: EUR 5.8 billion (an 89.6% increase on 2011).

In 2012, in order to support settlement of on-exchange and OTC transactions, NSD opened correspondent accounts with Interstate Bank in Kazakh tenges, Belarusian rubles, and Ukrainian hryvnias, as well as correspondent accounts with Citibank, New York (in USD), and Commerzbank AG and Russian VTB Bank (in Euro).

ISSUER SERVICES

AUTHORIZED DEPOSITORY SERVICES

Acting as a securities depository authorized to service bond issues (“authorized depository”), NSD works 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), Gazprom, etc. Among the issuers served by NSD are Russian Federation regions 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 2012, the number of issuers maintaining issuer accounts with NSD decreased by 28%, from 844 (as at 1 January 2012) to 607 (as at 1 January 2013), due to the closing of issuer accounts in which no transaction was made over the period of more than 12 months since the redemption of the last bond issue.

In 2012, NSD started to open treasury securities accounts intended for holding bonds repurchased by their issuers. The need for such accounts arose due to the changes introduced to the Russian laws, under which, with effect from 1 January 2012, bonds repurchased by their issuers has to be held in treasury securities accounts, rather than issuer accounts. As at 1 January 2013, issuers opened 85 treasury securities accounts with NSD.

In 2012, NSD received and approved issuance-related documents for 307 issues of corporate and regional bonds in bearer form having a total par value of RUB 1.28 trillion, the global certificates for which will be held in custody at NSD on a mandatory centralized basis.

Over the reporting year, NSD accepted for mandatory centralized safekeeping (i.e. provided support to offering of, and subsequent trading in) 294 issues of corporate and regional bonds in bearer form worth of RUB 1.38 trillion in total.

In 2012, NSD, acting as an authorized depository of the Russian Ministry of Finance, accepted for safekeeping certificates of 5 issues of federal loan bonds (OFZ) with the total par value of RUB 0.75 trillion.

As at 1 January 2013, NSD, acting as an authorized depository, handled 948 corporate and regional bond issues issued by 374 issuers with an aggregate nominal value of RUB 4.8 trillion and USD 0.06 trillion<sup>11</sup>.

Based on the results of tenders and electronic auctions held by Russian Federation regions and municipalities, as well as natural monopolies, NSD in 2012 was awarded 35 contracts to provide depository and paying agent services.

In the reporting year, NSD continued to accept for servicing and support new exchange-traded bond offerings and trading (the corporate bond market segment has seen rapid development since 2008). In 2012, NSD accepted for servicing 116 exchange-traded bond issues.

In 2012, NSD also provided services for bond issues (with global certificates held at NSD) of such international financial organizations, as the Eurasian Development Bank and International Finance Corporation.

<sup>11</sup> These figures exclude issuers and their bond issues with respect to which the issuers defaulted on payment of principal.

PAYING AGENT SERVICES AND P&I PAYMENT TRANSFER SERVICES

NSD continues to act as a paying agent for corporate bonds and subfederal and municipal bonds (“regional bonds”), the state registration of which (or the assignment of identifiers to which) was made before 1 January 2012.

In 2012, NSD, acting as a paying agent, accepted 57 bond issues of 35 issuers for servicing. As of 1 January 2013, the number of bond issues handled by NSD as a paying agent reached 356, while the number of bond issuers served amounted to 150.

The number of fund transfers via NSD as a paying agent (P&I payments) during 2012 amounted to 43,405 payments. The total amount of P&I payments distributed reached RUB 287.015 billion.

Due to the changes introduced to the Russian laws (applicable to bond issues identifiers to which were assigned after 1 January 2012, as well as to all federal government bonds subject to mandatory centralized safekeeping, regardless of their registration date)<sup>12</sup>, with effect from 1 January 2012, the transfer of P&I payments on securities became an integral part of depository services provided by authorized depositories to their customers.

In 2012, the number of P&I payments made via NSD as part of depository services amounted to 7,876, while the total amount of such payments was RUB 627.674 billion.

<sup>12</sup> Federal Law No. 122-FZ “On Amendments to the Federal Law “On the Securities Market” and Articles 214.1 and 310 of the Second Part of the Russian Federation Tax Code” dated 3 June 2011.



NSD’S ACTIVITIES AS A MEMBER OF THE ASSOCIATION OF NATIONAL NUMBERING AGENCIES (ANNA)

NSD AS THE NATIONAL NUMBERING AGENCY FOR RUSSIA

NSD has been a member of the Association of National Numbering Agencies (ANNA) and acted as the National Numbering Agency (NNA) for Russia since 1999<sup>13</sup>.

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

NSD submits information on assigned securities codes to the ANNA’s global database and keeps current the information on the ISIN and CFI codes submitted thereto.

In 2012, NSD assigned ISIN and CFI codes to 1,695 Russian financial instruments, a 70.35% increase on 2011. For 417 Russian securities, the ISIN and CFI codes were cancelled due to the cancellation of securities issues and redemption of securities.

As of 1 January 2013, the total number of ISIN and CFI codes assigned by NSD reached 8,203.

<sup>13</sup> NSD is the universal legal successor to NDC that 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, has been providing assistance to securities 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.

These services include:

- providing, upon request, information on the ISIN and CFI codes assigned to foreign financial instruments; and
- assisting in assigning ISIN and CFI codes, where no such codes have been previously assigned.

As a result of processing these requests and monitoring information on ISIN and CFI codes of foreign financial instruments, NSD, over the year 2012, provided securities market participants with information on 21,635 instruments, including 18,118 instruments whose CFI codes meet the qualification requirements.

Over the entire period of assisting securities market participants in qualifying foreign financial instruments as securities, NSD processed requests for ISIN and CFI information in respect of 59,588 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 ANNA to act as the Substitute Numbering Agency (SNA) for the CIS countries, 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 from the countries’ regulators and NNAs in order to implement ANNA’s key objective, i.e. to ensure 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 DEVELOPMENT AND DEVELOPMENT OF HARDWARE AND SOFTWARE SYSTEMS

The key objectives set for 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, as well as to increase the performance and reliability of the software and hardware systems used at NSD.

In light of the ever-increasing demand from stock exchanges, regulators and customers, NSD pursued vigorous efforts in 2012 to expand the functionality of the software used in the depository and settlement systems, as well as the EDI system.

### **AUTOMATED BANKING SYSTEM**

In 2012, NSD continued operation of the CFT-Bank 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 approximately 500 local operations and representations, including about 300 new ones, designed to automate the processing, preparation and analysis of information and optimise users' work.

Throughout the reporting year, NSD continued to make changes to the software in accordance with the adjusted requirements submitted by NSD's business units with respect to the implemented project whereby separate accounts are maintained for VAT in order to offset 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 establish a common data repository for the MICEX-RTS Group and use it for generating management and financial accounts and budgeting, NSD operated the system for automatic download of approved data from the CFT-Bank system.

Due to the increased volume of work, modifications were made to the bilateral gateway designed to transfer data between NSD's banking and billing systems to reflect settlements with registrars, participants, and issuers on NSD's books of account.

In accordance with Bank of Russia's Regulations No. 311-P "On the Procedure for a Bank Giving Electronic

Notice to Tax Authorities of the Opening or Closure of an Account and Changes in the Account Details" and technical requirements submitted by NSD's business units, the developers of the CFT-Bank system developed, tested and implemented a bilateral gateway linked to NSD's corporate database and designed to transfer information on customers.

In addition, NSD developed, tested and put into operation a new bilateral gateway to transfer data between the CFT-Bank system and the Automated System for Electronic Settlement (ASES) newly implemented at NSD. The new gateway made it possible to exchange information on securities conversions/exchanges, payment documents, and cash settlements.

As part of the project to automate fixed assets accounting and inventory-taking processes with the use of RFID tags, NSD purchased and fine-tuned necessary equipment, and developed, tested, and put into operation the new functionality.

Due to the changes introduced to the accounting rules with effect from 1 January 2013, and due to the abolishment of the requirement to maintain separate accounts for VAT in order to offset output VAT and input VAT, NSD developed, tested, and put into operation necessary software upgrades.

In addition, NSD make preparations to implement changes in the accounting processes related to the preparation of statutory and internal reports and accounts. The implementation of such changes is scheduled for Q1 2013.

NSD was granted status of a systemically important payment system and started preparations for preparing reports related to NSD's payment system. The development and implementation of necessary functionality are scheduled for Q1-Q2 2013.

**ELECTRONIC SETTLEMENT SYSTEM**

In July 2012, NSD completed the next phase of modernization of its IT systems required to enable NSD to act as a central securities depository. In particular, NSD put into commercial operation a new Automated System for Electronic Settlement (ASES).

The new settlement system functions on the basis of Hewlett-Packard Integrity servers. During the implementation process, the company switched from Informix database management system to Oracle, NSD's standard DBMS.

The ASES's advanced architecture based on Processware Integration Environment (PIE) is a new platform that allowed NSD to dramatically increase performance of the company's most critical business processes. To speed up migration to the new system, its initial functionality was extended, mainly by making upgrades to ensure compliance with the latest accounting requirements applicable to non-banking credit institutions and the Bank of Russia's information security standard. ASES designers took account of the old system's bottlenecks, as well as NSD's business development strategy. Thanks to that, the ASES now allows NSD to significantly speed up implementation of new transactions and business processes, minimize operational risks through enhanced automation of processes, and more promptly meet customers' requirements to ensure convenient and reliable communication with NSD.

The ASES was developed jointly by NSD and CMA Small Systems AB (Stockholm, Sweden). CMA's solutions have been used in a number of large-scale international projects launched by central and commercial banks, securities depositories, clearing and settlement houses, stock exchanges, and brokerage firms.

Currently, ASES is NSD's principal hardware and software system that operates online and automates cash settlement of customers' on-exchange and OTC transactions.

Since the ASES was put into commercial operation, NSD has implemented the following key ASES-based projects:

- transfer of a settlement organization's functions in the FORTS and STANDARD markets to NSD;
- assisting non-credit institutions to settle transactions in external (foreign-currency denominated) securities in the securities market;
- clearing at NSD;
- bringing NSD's activities in line with the Federal Law No. 7-FZ "On Clearing and Clearing Activities" dated 7 February 2011; and
- making changes to the accounting procedures to ensure migration to the new Chart of Accounts with effect from 1 January 2013.

Also, during the reporting period, NSD's developers formulated, tested, and implemented over 300 tasks to upgrade the ASES designed to minimize operational risks and streamline transactions processed on an everyday basis.

As at 1 January 2013, 776 NSD's customers had online remote access to the ASES through SES Client, Internet Bank-Client or Intranet Bank-Client interfaces.

**INTERACTION WITH THE BANK OF RUSSIA'S INTERREGIONAL CENTRE OF INFORMATIZATION**

To interact with the Bank of Russia's Interregional Centre of Informatization (ICI), NSD uses its efficient software and hardware system that is based on tools provided by the Bank of Russia's IT Department and NSD's proprietary tools.

The implementation of new electronic data interchange formats for interchanging payment data (the use of which is recommended by the Bank of Russia's ICI) allowed NSD's customers to use the most advanced solutions. Various technical issues were addressed at the testing stage, and redundant communication channels ensured high availability of services. Thanks to the use of flexible internal automation technologies, NSD managed to create a state-of-the-art and reliable system that supports settlement of trades.

**COMMUNICATION WITH SUPERVISORY AUTHORITIES**

In 2012, NSD continued to develop its Electronic Communication System designed to communicate with supervisory authorities.

In compliance with Bank of Russia's Regulations No. 365-P and Russian Federal Tax Service's Order No. MMV-7-2/203@ dated 15 March 2011 "On the Approval of the Procedure for Submission to Banks of Documents Being Used by Tax Authorities Exercising Their Powers in the Course of Relationships Governed by Tax Laws and the Procedure for Submission by Banks of Information Requested by Tax Authorities, in Each Case in Electronic Format through Telecommunication Channels", NSD started to interchange electronic messages with tax authorities.

In the course of migration to the new chart of accounts, NSD took steps to enable the interchange of electronic messages in accordance with Bank of Russia's Regulations No. 311-P dated 7 September 2007 "On the Procedure for a Bank Giving Electronic Notice to Tax

Authorities of the Opening or Closure of an Account and Changes in the Account Details".

NSD's systems were upgraded to enable NSD to send electronic messages to customs authorities in accordance with Bank of Russia's Regulations No. 364-P dated 29 December 2010 "On the Procedure for Submission by Authorized Banks and Bank of Russia's Regional Offices of Information in Electronic Format on Transaction Certificates Related to Foreign Trade Contracts to Customs Authorities to Enable Them to Act as Currency Control Agents".

In compliance with the requirements imposed by the Moscow Main Regional Office of the Bank of Russia (Letter No. 11-15-4-11/54721 dated 15 August 2006 "On the Procedure for Submission of Form 0409665 Reports"), NSD started to use a system for automated delivery of electronic messages.

In addition, NSD took steps to comply with the requirements imposed by Bank of Russia's Regulations No. 321-P dated 29 August 2008 "On the Procedure for Submission by Credit Institutions to Authorized Bodies of Information Provided for by the Federal Law "On Anti-Money Laundering and Terrorist Financing".

**SWIFT TERMINAL**

NSD’s SWIFT terminal allows both Moscow Exchange Group companies and more than 60 customers to have access to SWIFT services.

In 2012, a new fee schedule was introduced to enhance the quality of the service and to make it more attractive for customers to access SWIFT services via NSD’s SWIFT terminal.

The new fee schedule offers the following advantages:

- The new fees are more attractive for small customers sending no more than 100 messages a day.
- New services were added, such as SWIFT Alliance Messenger and redundant access service.
- Obsolete non-used services are no longer supported.
- The new fees are more straightforward and universal and allow one to easily calculate the applicable fee for any number of workstations and any data traffic.

As part of the Repository Project and to meet the requirements of NSD’s customers who wish to use SWIFT to interchange messages with NSD’s Repository, the SWIFT terminal was upgraded with the FileAct service to support such communications.

To increase the reliability of NSD’s SWIFT terminal, a new product (DB Recovery) was deployed that allows NSD to synchronize data from the main terminal with a remote backup facility on a real-time basis.

**REPOSITORY SOFTWARE MODULE**

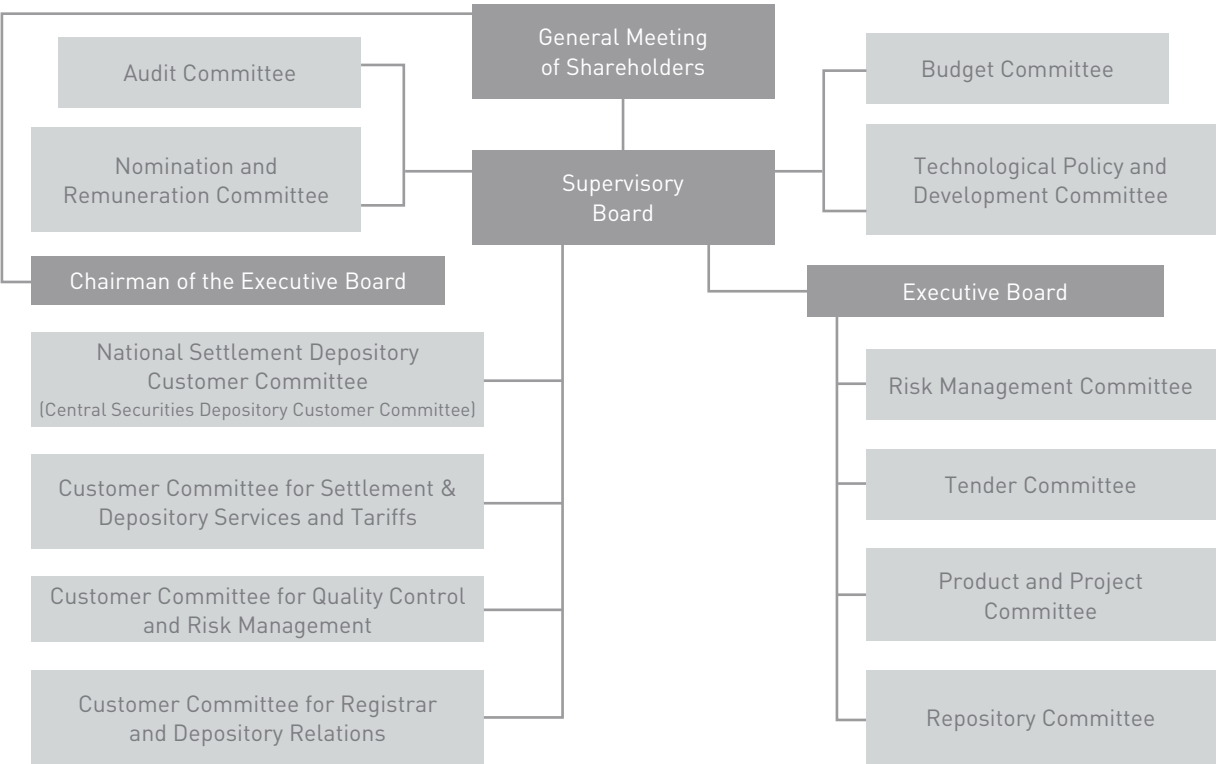
In December 2012, as part of preparations for providing Repository’s services, NSD together with CMA Small Systems AB (Stockholm, Sweden) developed and put into commercial operation a new software module (Repository Module) designed to store data on OTC repo and derivative transactions in the register of contracts maintained by NSD’s Repository.





# CORPORATE GOVERNANCE

## NSD'S CORPORATE GOVERNANCE STRUCTURE



### GOVERNANCE BODIES OF NSD

Body	Authority
GENERAL MEETING OF SHAREHOLDERS	<p>The General Meeting of Shareholders is NSD's superior management body. General Meetings are convened at least once a year.</p> <p>The General meeting makes decisions on the key questions of NSD's activity. The list of questions, the General meeting has authority over is defined by the Federal Law No. 208-FZ "On Joint-Stock Companies" and by the Articles of Association of NSD.</p>
SUPERVISORY BOARD	<p>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 NSD's Supervisory Board are governed by the Regulations on the Supervisory Board approved by the General Meeting.</p>
CHAIRMAN OF THE EXECUTIVE BOARD	<p>The Chairman of the Executive Board is the chief executive officer of NSD. The Chairman of the Executive Board is appointed by the General Meeting of Shareholders for a term of three years.</p>
EXECUTIVE BOARD	<p>The Executive Board is NSD's collegial executive body. Executive Board members are appointed by the Supervisory Board. The procedures of the Executive Board are governed by the Regulations on the Executive Board approved by the General Meeting of Shareholders.</p>

COMMISSIONS AND COMMITTEES

COMMITTEES OF THE SUPERVISORY BOARD

Name	Mission
AUDIT COMMITTEE	Ensuring efficient work of the NSD Supervisory Board in organising the internal control and external audit system, as well as risk management at NSD.
BUDGET COMMITTEE	Improving the efficiency of the NSD's Supervisory Board by ensuring proper control over the way funds are received and spent at NSD. The Committee thoroughly prepares materials to be considered at meetings of the NSD Supervisory Board relating to financial planning and financial resources management system.
NOMINATION AND REMUNERATION COMMITTEE	In-depth analysis of matters relating to the recruitment, assessment and remuneration of managers at NSD, including members of the Supervisory Board, the Chairman and members of the Executive Board, and members of the Auditing Commission of NSD.
TECHNOLOGICAL POLICY AND DEVELOPMENT COMMITTEE	Analysis of development of NSD's IT systems, ensuring efficient work of the NSD Supervisory Board in addressing matters of technical policy, IT and software development at NSD.

COMMITTEES OF THE EXECUTIVE BOARD

Name	Mission
RISK MANAGEMENT COMMITTEE	Assistance to the Executive Board in the area of corporate governance and risk management.
TENDER COMMITTEE	Securing the best terms for procuring goods, services and works needed to support NSD's operations, and to minimise the risk of NSD contractors failing to deliver.
PRODUCT AND PROJECT COMMITTEE	NSD's project management.
REPOSITORY COMMITTEE	Considering proposals and giving recommendations to the NSD Executive Board designed to develop and improve the NSD trade repository activities.

COMMITTEES OF THE CHAIRMAN OF THE EXECUTIVE BOARD

Name	Mission
ARCHITECTURAL COMMITTEE	Proposals to ensure uninterrupted operation of IT infrastructure, development and carrying out of IT strategy.
UPDATE COMMITTEE	Quality analysis of control mechanisms during software updates and IT infrastructure, risk management during updates.

CUSTOMER COMMITTEES

Name	Mission
CUSTOMER COMMITTEE FOR QUALITY CONTROL AND RISK MANAGEMENT	Recommendations to the Supervisory Board on client and marketing policy, improving the quality of clients' service, approval of internal documents on clearing activity.
CUSTOMER COMMITTEE FOR SETTLEMENT AND DEPOSITORY SERVICES AND TARIFFS	Analysing customers' needs, making recommendations on development of custody and cash settlement products and tariff policy.
CUSTOMER COMMITTEE FOR REGISTRAR AND DEPOSITORY RELATIONS	Recommendations to improve existing methods of interaction between NSD and registrars, proposals to change existing technologies being used for the interaction between NSD and registrars.
NATIONAL SETTLEMENT DEPOSITORY CUSTOMER COMMITTEE (CENTRAL SECURITIES DEPOSITORY CUSTOMER COMMITTEE)	Approving internal regulations of NSD as a central securities depository and NSD's custody fees

INTERNAL AUDIT COMMISSION

Name	Mission
INTERNAL AUDIT COMMISSION	The Internal Audit Commission is the controlling body responsible for exercising internal control over NSD's financial and business activities. Members of the Internal Audit Commission are elected at annual General Meetings of Shareholders. The current members of the Internal Audit Commission are listed in the table below. The procedures of NSD's Internal Audit Commission are governed by the Regulations on the Internal Audit Commission approved by the General Meeting of Shareholders.

Additional information on NSD's commissions and committees may be found on pages 58-67.

SUPERVISORY BOARD MEMBERS OF NSD, ELECTED BY THE GENERAL SHAREHOLDERS MEETING DATED 26.04.2011<sup>14</sup>

Ruben Aganbegyan	Eddie Astanin
Mikhail Bratanov	Anna Vyshlova
Oleg Vyugin	Bella Zlatkis
Maria Ivanova	Alexander Ikonnikov
Irina Ikonnikova	Sergey Lykov
Vladimir Tatsiy	Nadezhda Ushakova
Alexei Fedotov	Tatiana Fomina

SUPERVISORY BOARD MEMBERS OF NSD, ELECTED BY THE GENERAL SHAREHOLDERS MEETING DATED 25.05.2012. INFORMATION ON THE SUPERVISORY BOARD MEMBERS

RUBEN AGANBEGYAN	
Date of birth:	14 February 1972
Education:	Moscow State Law Academy, 1995
Employment:	Company name: Otkritie Financial Corporation Title: CEO
Previous positions:	2003 to 2010 – Business Development Director, President, Renaissance Capital - Financial Consultant; 2010 to 2012 – Temporary sole executive body of the Stock Exchange (President), President, Chief Executive Officer, Moscow Exchange

EDDIE ASTANIN	
Date of birth:	16 December 1961
Education:	Mozhaisky Military Engineering Institute, 1984 Institute for Further Training and Qualification Upgrade in Finance and Banking at the Finance Academy attached to the Government of the Russian Federation, 1996
Employment:	Company name: National Settlement Depository Title: Chairman of the Executive Board
Previous positions:	1994 – 2004 – MICEX CJSC; 2005 to 2009 – Deputy Director General, Not-for-Profit Partnership National Depository Center 2009 to 2010 – Deputy Director General, Director General, National Depository Center

<sup>14</sup>Information on the Supervisory Board members, elected 26.04.2011 may be found in the NSD’s Annual report for the year 2011.

MIKHAIL BRATANOV	
Date of birth:	16 May 1973
Education:	Moscow State Institute for Electronic Technology (Technical University), graduated from two faculties, 1996 Moscow State Institute for Electronic Technology (Technical University), post-graduate course, 2003 Moscow School of Management SKOLKOVO, Executive MBA, 2011
Employment:	Company name: ROSBANK (OJSC) Title: Director of Securities Services
Previous positions:	2003 to 2007 – Head of Network Management of Securities Services, ROSBANK (OJSC)

ANNA VYSHLOVA	
Date of birth:	31 December 1973
Education:	Lomonosov Moscow State University, 1996 Higher School of Economics, 2008
Employment:	Company name: Renaissance Broker Limited Title: Chief Operating Officer

OLEG VYUGIN	
Date of birth:	29 July 1952
Education:	Lomonosov Moscow State University, 1974 Lomonosov Moscow State University, post-graduate course, 1978
Employment:	Company name: Federal State Autonomous Educational Budgetary Institution of Higher Professional Education “National Research University “Higher School of Economics” Title: Professor, Stock Markets and Investment Market Chair Currently also holds the positions of Chairman of the Board of Directors, MDM Bank (OJSC), and Chairman of the Board of Directors, NAUFOR
Previous positions:	Head of the Federal Service for Financial Markets, First Deputy Chairman of the Central Bank of the Russian Federation, First Deputy Minister of Finance of the Russian Federation

BELLA ZLATKIS	
Date of birth:	05 July 1948
Education:	Moscow Finance Institute, 1970 All-Union Correspondence Financial Institute, post-graduate course, 1978 Candidate of Economic Sciences
Employment:	Company name: Sberbank of Russia Title: Deputy Chairman of the Executive Board

MARIA IVANOVA	
Date of birth:	29 June 1972
Education:	University: E.C.S.S.A.C., Liege, Belgium, 1996
Employment:	Company name: Deutsche Bank LLC Title: Head of Custody
Previous positions:	2001 to 2008 – Key Account Manager, Clearstream Banking S.A. Luxembourg 2008 – 2009 – Development Director, CJSC National Depository Center

ALEXANDER IKONNIKOV	
Date of birth:	05 April 1971
Education:	Gubkin Moscow Oil and Gas University, 1993 Candidate of Economic Sciences Certified Director, UK
Employment:	Company name: Board Solutions CJSC Title: General Director
Previous positions:	1996 to 1998 – Head of Department for Foreign Economic Relations and Investments, Ministry for Fuel and Energy, Russia 1998 to 2001 – Deputy Executive Director, NAUFOR (National Association of Participants of the Stock Market of Russia) 2001 to 2004 – Co-founder/Executive Director, Investor Protection Association in Russia Since 2005 – Senior Partner, Board Solutions Chairman of the Independent Directors Association of Russia, Independent Director and Member of Personnel and Remunerations Committee, Sollers plc., Russia

IRINA IKONNIKOVA	
Date of birth:	07 October 1971
Education:	Lomonosov Moscow State University, 1995
Employment:	Company name: CJSC “Sberbank CIB” Title: Executive Director, Operations

ANDREY REMNEV	
Date of birth:	07 August 1951
Education:	Moscow Finance Institute, 1976
Employment:	Company name: Vnesheconombank Title: Director of Depository, Vnesheconombank

EKATERINA SIZOVA	
Date of birth:	05 June 1974
Education:	Moscow State Linguistic University, 1996 Financial Academy under the Government of the Russian Federation, 2002
Employment:	Company name: J.P. Morgan Bank International (LLC) Title: Head of Custody
Previous positions:	2001 to 2011 – Head of Securities Management, Renaissance Broker LLC

VLADIMIR TATSIY	
Date of birth:	05 December 1960
Education:	Moscow Energy Institute, 1984 Institute for World Economy and International Relations of the Russian Academy of Sciences, post-graduate course, Candidate of Economic Sciences, 2011
Employment:	Company name: GPB (OJSC) Title: First Vice President



NADEZHDA USHAKOVA	
Date of birth:	06 February 1967
Education:	State Finance Academy, 1988
Employment:	Company name: VTB Bank (OJSC) Title: Senior Vice President, Head of Custody Operations
Previous positions:	1997 to 2004 – Custody, ING Bank (Eurasia) ZAO 2004 to 2009 – Head of Custody, Deutsche Bank LLC

ALEXEI FEDOTOV	
Date of birth:	16 July 1965
Education:	Moscow Institute of Radio-Engineering, Electronics and Automation, 1986
Employment:	Company name: ZAO Citibank Title: Head of Securities Department
Previous positions:	Company name: ABN AMRO Bank ZAO Title: Head of Depository Department

ALEXANDER SHCHEGLOV	
Date of birth:	30 June 1968
Education:	Moscow Institute of Physics and Technology (MIPT), 1991 Post-Graduate Course at the Moscow Institute of Physics and Technology (MIPT), 1994
Employment:	Company name: CJSC AHML Title: Executive Director for Mortgage Administration
Previous positions:	General Director, Investment Company Zerich Capital Management

The members of the Supervisory Board did not own any shares in NSD.

INFORMATION ON THE EXECUTIVE BOARD (AS OF 1 JANUARY 2012)  
MEMBERS IS PROVIDED BELOW<sup>15</sup>

EDDIE ASTANIN, CHAIRMAN OF THE EXECUTIVE BOARD	
Date of birth:	16 December 1961
Education:	Mozhaisky Military Engineering Institute, 1984 Institute for Further Training and Qualification Upgrade in Finance and Banking at the Finance Academy attached to the Government of the Russian Federation, 1996

IRINA VEREMEYENKO, CHIEF ACCOUNTANT, DIRECTOR OF ACCOUNTING DEPARTMENT	
Date of birth:	24 May 1965
Education:	Moscow Finance Institute, 1987

NIKOLAY DEGTYAREV, DEPUTY CHAIRMAN OF THE EXECUTIVE BOARD	
Date of birth:	27 February 1958
Education:	Lomonosov Moscow State University, 1985

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

<sup>15</sup> Information on the Executive Board members, which authorities were terminated prior 31.12.2012 may be found in the NSD’s Annual report for the year 2011.

REMUNERATION OF THE MEMBERS  
OF THE SUPERVISORY BOARD OF NSD

The Federal Law No. 208-FZ “On Joint-Stock Companies” stipulates that upon decision of a General Meeting of Shareholders remuneration may be paid to the Members of the Supervisory Board in the period when they carry out their duties. The amount of remuneration is determined by decision of the General Meeting of Shareholders.

The Supervisory Board of NSD, based on the suggestions of the Nomination and Remuneration Commission of NSD laid down recommendations for the annual General Meeting of Shareholders of NSD on foundations and amount of remuneration to the Members of the Supervisory Board of NSD in 2012.

The following factors were considered by the Members of the Supervisory Board to determine the amount of the remuneration:

- membership of the Supervisory Board;
- performance of the functions of the Chairman of the Supervisory Board;
- membership of the Supervisory Board Commission;
- performance of the functions of the Head of the Supervisory Board Commission;
- participation in the Supervisory Board meetings;
- participation in the Supervisory Board Commissions meetings.

The independent member of the Supervisory Board of NSD, Ikonnikov A.V., received remuneration in the amount of 2,000,000 rubles in 2012.

The total amount of remuneration paid in 2012 to the Members of the Supervisory Board of NSD was 14 435 594 rubles.

REMUNERATION OF THE MEMBERS  
OF THE EXECUTIVE BOARD

Remuneration to the Members of the Executive Board of NSD is paid in accordance with their employment contracts. According to NSD’s Articles of Association the amount of remuneration of the Members of the Executive Board of NSD is determined by decision of the Supervisory Board of NSD.

The system of remuneration of the Members of the Executive Board includes 2 units:

- Monthly remuneration (salary) for performance of employment duties according to the employment contract;
- Remuneration based on the achievements according to performance indicators. The plan of performance indicators is determined by the Nomination and Remuneration Commission of the Executive Board of NSD. For each Member of the Executive Board of NSD a range of key indicators is determined, their achievement influences the amount of remuneration of the Member of the Executive Board.

In 2012 the total amount of remuneration paid to the Members of the Executive Board comprised 41,363,036.45 rubles.

CORPORATE GOVERNANCE PRINCIPLES

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

- setting strategic objectives for NSD and implementing an effective governance system;
- providing proper incentives for NSD’s management and employees to pursue NSD’s strategic objectives;
- maintaining the balance of shareholders’ interests and interests of Supervisory Board members, executive bodies’ members, and other stakeholders; and
- ensuring compliance with the Russian laws and regulations, NSD’s Articles of Association and internal regulations.

NSD adheres to the key OECD principles of corporate governance 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 NSD; and
- ensure the strategic guidance of NSD, and the efficient monitoring of management by the General Meeting of Shareholders and Supervisory Board.

NSD’s corporate governance system is based on the respect of shareholders’ rights and legitimate interests and contributes to the company’s effective performance, adds value to the company, and supports its financial strength and profitability.

The Supervisory Board performs strategic management of NSD and exercises effective control over the Executive Board and Executive Board Chairman.

- The Supervisory Board is responsible for defining the company’s development strategy, exercising efficient control over the company’s financial and business activities, and approving the company’s budget.
- The composition of the Supervisory Board ensures the most effective performance of its functions.
- The Supervisory Board members actively participate in Supervisory Board meetings, as well as meetings of Supervisory Board Committees.
- Supervisory Board meetings are convened on a regular basis, either in the form of in-person meetings or in the form of absentee voting, depending on the materiality of the agenda issues.
- The Regulations on the Supervisory Board set out, in detail, the procedure for arranging and holding Supervisory Board meetings.
- The Supervisory Board comprises the Budget Committee, the Audit Committee, the Nomination and Remuneration Committee, and the Technological Policy and Development Committee.
- In accordance with NSD’s Articles of Association, the Supervisory Board may establish any other standing or ad-hoc committees, or Customer Committees responsible for certain key areas of NSD’s business and dealing with any current issues.
- The Supervisory Board is responsible for ensuring the effective performance of the Executive Board and the Chairman of the Executive Board, as well as for exercising control over their performance.

The Executive Board and the Chairman of the Executive Board are capable of effectively and reasonably running NSD’s day-to-day operations, in good faith and in the best interests of NSD.

- In accordance with NSD’s Articles of Association, the Executive Board has the powers to deal with the most complex issues arising in the company’s day-to-day operations.
- The composition of the Executive Board ensures the most effective performance by NSD’s executive bodies of their functions.

To enable its shareholders to make reasonable decisions and to ensure the transparency of its operations, NSD discloses, in a timely fashion, full and accurate information on its activities, as required by the Russian laws and NSD’s internal regulations, including information on the company’s financial standing, performance indicators, ownership structure, and governance structure.

- NSD’s shareholders enjoy equal rights to get access to any corporate information.
- NSD’s shareholders and other stakeholders may receive full and accurate information, including information on NSD’s financial standing, performance, governance, shareholders, and any material facts that affect NSD’s financial and business activities.
- NSD has controls in place to ensure that its internal information and trade secrets are kept confidential, and the use of the same is monitored.

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 No. 11-T dated 7 February 2007. The current index score for the purpose of internal self-assessment is calculated on a quarterly basis.

**SHAREHOLDERS**

NSD’s majority shareholder is Moscow Exchange (99.997 %). The full list of NSD’s shareholders is set out in the table below.

On 30 June 2011, the Shareholders Agreement with respect 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 the company’s establishment.

The execution of the Shareholders Agreement accompanied by making amendments to NSD’s Articles of Association and other internal regulations secured for NSD’s customers the right to participate in managing NSD and ensured a balance between the interests of NSD’s majority and minority shareholders. Under the Shareholders Agreement, up to five major customers of NSD may become its shareholders every year, thus becoming entitled to participate in managing the company.

The broad representation of securities market participants in NSD’s share capital (based on the ‘one participant – one share’ principle) gives NSD’s customers an opportunity to participate in developing NSD’s product range and tariffs, i.e., establish control over the price and quality characteristics of NSD’s services.

The Shareholders Agreement demonstrates that the Moscow Exchange Group is willing to establish a corporate governance system that is transparent to securities market participants and represents a phase of NSD preparing for the role of the CSD.

**LIST OF NSD’S SHAREHOLDERS (AS OF 1 JANUARY 2013)**

1	Open Joint Stock Company “Moscow Exchange 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	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 company “Sberbank CIB”
29	Shlotburg Capital LLC
30	“METROPOL” Investment Financial Company Ltd.”
31	Renaissance Broker Limited
32	MDM Bank, Open Joint Stock Company
33	Irkol CJSC
34	Novyi Registrator CJSC
35	Professional Registration Center CJSC
36	JSC “DRAGa”
37	CJSC “Computershare Registrar”

GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders, which approved the Annual Report of NSD for the year 2011 and the auditor was held on May 25, 2012. The General Meeting also made decisions on profit distribution and dividend payment for 2011, elected the Supervisory Board and Internal Audit Commission, approved the new revision of the NSD’s Articles of Association, made decisions on remuneration of the Supervisory Board members, and approved deals in which the company has an interest.

No Extraordinary Meetings of Shareholders have been held in 2012.

REGISTRAR

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

REPORT ON THE PAYMENT OF DECLARED (ACCRUED) DIVIDENDS ON THE SHARES IN NSD

In accordance with Federal Law No. 208-FZ “On Joint-Stock Companies” dated 26 December 1995, a company may declare dividends on its issued and outstanding shares and is required to pay the dividends so declared.

The annual General Meeting of Shareholders held on 25 May 2012 passed the following resolutions in relation to dividend payment to NSD’s shareholders:

NSD would pay RUB 1,200,000,000 in dividends to the shareholders out of NSD’s net profits for the financial year 2011.

- The amount of the dividends to be paid on NSD’s shares was set at RUB 1,016.37 per ordinary share before the payment of the dividend income tax in accordance with subparagraph 1 of paragraph 3, Article 284 of the Russian Tax Code.

- The dividends would be payable to the company’s shareholders within 60 days following the dividend declaration by the annual General Meeting of Shareholders. The dividends would be payable to the current/correspondent accounts of NSD’s shareholders.

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

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

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

In the reporting year, the Supervisory Board held 20 meetings and considered various matters related to NSD’s key areas of business. Among these, the Supervisory Board considered certain matters related to the integration of NSD, DCC, and Settlement Chambers RTS, implementation of the high priority projects and the status of NSD’s project activities, as well as matters related to risk management, operational performance, and development of corporate governance at NSD.

The Supervisory Board made decisions on the key issues related to NSD’s financial and business activities and business development, including the following:

- execution of the budget of NSD’s revenues, expenses and profit, and the capital expenditure budget for 2012, and making adjustments thereto;
- 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 2011;
- determining the amount of fees payable to NSD’s independent auditors;

- making changes to NSD’s Fee Schedule;
- NSD’s participation in S.W.I.F.T.;

- NSD’s development strategy for the period until 2015;
- determining high priority projects for 2013; and
- NSD’s IT strategy.

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

- assessment of the corporate governance at NSD;
- approval of the Restated NSD’s Articles of Association;
- approval of the organizational structure and members of NSD’s Executive Board, and authorizing Executive Board members to hold positions in management bodies of other entities;
- sale of NSD’s shares in accordance with the Shareholders Agreement;
- convocation of the annual and extraordinary General Meetings of Shareholders;
- recommendations to the General Meeting of Shareholders;
- approval of the Key Performance Indicators (KPI) for the Chairman and members of the Executive Board;
- work of the Supervisory Board Committees and the Customer Committees;
- appointment of members to the Supervisory Board Committees and the Customer Committees;
- NSD’s participation in Settlement Chambers RTS;
- NSD’s participation in DCC; and
- approval of NSD’s interested party transactions.

Moreover, decisions were taken on the matters related to NSD’s operational efficiency, amendment and approval of NSD’s internal regulations, including the following:

- reviewing the reports submitted by NSD’s Internal Control Department and approving its working plans; 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 plans and NSD’s internal regulations related to the activities of the Internal Audit Service;
- approval of NSD’s Liquidity Risk Management Regulations;
- approval of NSD’s Regulations on the Criteria (Principles) for the Selection of Investment Assets;
- approval of NSD’s restated Clearing Rules;
- approval of NSD’s Code of Professional Ethics;
- approval of NSD’s internal regulations required to be in place for NSD to be granted the status of a central securities depository;
- approval of NSD’s internal regulations required to be in place for NSD to be granted a license for clearing operations; and
- development of NSD’s payment system.

NSD’S SUPERVISORY BOARD COMMITTEES<sup>16</sup> AND OTHER NSD COMMISSIONS

AUDIT COMMITTEE

**Mission:** The Audit Committee’s role is to ensure efficient work of the NSD Supervisory Board in organising the internal control and external audit system, as well as risk management at NSD.

MEMBERS

1	Andrey Remnev, Chairman of the Committee	Director of Depository, Vnesheconombank
2	Mikhail Bratanov	Director of Depository, ROSBANK (OJSC JSCB)
3	Maria Ivanova	Vice President, Director for Development and Clients Relations, NSD
4	Ekaterina Sizova	Head of Depository Services Division, JP Morgan Bank International
5	Natalia Sidorova	Head of Securities Services, ING BANK (EURASIA) ZAO
6	Nadezhda Ushakova	Senior Vice President, Head of Depository, JSC VTB Bank
7	Alexei Fedotov	Head of Securities and Funds Service, ZAO Citibank
8	Tatyana Fomina	Head of Financial Market Operations Division in the Banking Operations Department, ZAO UniCredit Bank
9	Aleksander Scheglov	Deputy Director, Agency for Housing Mortgage Lending

**Highlights for the year:** 13 meetings of the Committee have been held in 2012.

During 2012, the NSD Audit Committee paid much attention to reviewing the documents required for NSD to become the CSD. The massive amount of documents and the need to promptly consider each of them called for a great deal of effort from Commission members. As a result, the Committee’s efforts yielded a successful result and NSD became the NSD. The Audit Committee members were able to gain insight into the regulations governing NSD’s activities as the central element of the securities recordkeeping system on the Russian securities market.

Other important aspects of the Audit Committee’s work in 2012 were:

- optimising the structure and scope of work of NSD’s Internal Control Services, taking into account its new functions, such as those of the CSD, non-banking credit organisation, clearing organisation and trade repository.
- developing and improving the risk management system, and considering and approving the relevant measures;
- organising control of the NSD’s establishment as the CSD in handling Russian equities in order to assist customers in transferring their securities to the CSD’s nominee accounts and setting up interaction between NSD and registrars in accordance with the provisions of the CSD Law.

<sup>16</sup> Committee members are listed as of 31.12.2012

The establishment of a fully-fledged CSD on the basis of NSD is far from completion. A lot of work is yet to be done to streamline its day-to-day interaction with registrars, set up the delivery of high-quality services to Russian and overseas customers, and ensure efficient provision of interrelated and interdependent services of the CSD,

which combines the functions of a non-banking credit institution, a securities depository, a clearing house and a trade repository. In this context, it is paramount to ensure the development of the internal control and audit system, adopt and implement the Development Strategy for the Risk Management System at NSD for 2013-2014.

BUDGET COMMITTEE

**Mission:** The goal of the Budget Committee is to improve the eciency of NSD’s Supervisory Board by ensuring proper control over the way funds are received and spent at NSD. The Commission thoroughly prepares materials to be considered at meetings of the NSD Supervisory Board relating to financial planning and financial resources management system.

MEMBERS:

1	Vadim Subbotin, Chairman of the Committee	Managing Director of Finance, Member of the Executive Board, Moscow Exchange
2	Vladislav Zimin	Economic Advisor, Market Services Department, Bank of Russia
3	Andrey Ponomarev	Deputy Chief of Liquidity and Treasury Operations Division, Sberbank
4	Natalia Sidorova	Head of Securities Services, ING BANK (EURASIA) ZAO
5	Vladimir Tatsiy	First Vice President, GPB (OJSC)
6	Nadezhda Ushakova	Senior Vice President - Head of Depository, JSC VTB Bank
7	Tatyana Fomina	Head of Financial Market Operations Division in the Banking Operations Department, ZAO UniCredit Bank

**Highlights of the year:** 9 meetings of the committee have been held in 2012.

The Budget Committee’s priorities in 2012 were related to budget planning in the context of consolidation of settlement and safekeeping operations of NSD, DCC and Settlement Chamber RTS, and preparations at NSD for becoming Russia’s Central Securities Depository, and the matters relating to development and introduction of tariffs for new products and services.

The Budget Committee’s key task for 2013 will be to ensure operational cost-effectiveness of NSD’s business while providing earmarked financing for top priority projects. For these purposes, the Budget Committee expects to regularly consider NSD’s managerial accounts, including in terms of projects and current operations. One of the key priorities for the Budget Committee in 2013 will be NSD’s pricing policy in the CSD role.



NOMINATION AND REMUNERATION COMMITTEE

**Mission:** The Nomination and Remuneration Committee of the NSD Executive Board (“Committee”) is responsible for in-depth analysis of matters relating to the recruitment, assessment and remuneration of managers at NSD, including members of the Supervisory Board, the Chairman and members of the Executive Board, and members of the Auditing Commission of NSD, and submitting them for review by the NSD Supervisory Board.

MEMBERS:

1	Alexander Ikonnikov, Chairman of the Committee	Chairman of the Supervisory Board, Independent Directors Association
2	Alexander Afanasyev	Chief Executive Officer, Moscow Exchange
3	Oleg Vyugin	Chairman of the Board of Directors, MDM Bank
4	Bella Zlatkis	Deputy Chairperson of the Executive Board, Sberbank
5	Sergey Lykov	Member of the Management Board, Deputy Chairman, Vnesheconombank
6	Sergey Shvetsov	Deputy Chairman, Bank of Russia

<p><b>Highlights of the year:</b> 6 meetings of the committee have been held in 2012.</p> <p>The principal matters considered at the Committee meetings were as follows:</p> <ul style="list-style-type: none"><li>• Recommendations relating to the composition of the NSD Executive Board and payment of remunerations to the Executive Board members;</li><li>• Determining and assessing the Key Performance Indicators (KPI) for the NSD top managers;</li></ul>	<ul style="list-style-type: none"><li>• Shaping the organisational structure of the consolidated company (created as a result of the DCC’s merger with NSD); and</li><li>• Submitting additional nominations for the NSD Supervisory Board to be elected at the General Meeting of NSD shareholders in 2012, and determining the principles for remuneration of members of the Supervisory Board and Audit Committee.</li></ul> <p>The Committee Chairman coordinated the efforts to assess the state of corporate governance at NSD based on the 2012 results.</p>
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TECHNOLOGICAL POLICY AND DEVELOPMENT COMMITTEE

**Mission:** The Technological Policy and Development Committee is responsible for ensuring efficient work of the NSD Supervisory Board in addressing matters of technical policy, IT and software development at NSD.

MEMBERS:

1	Anatoly Karachinsky, Chairman of the Committee	President, IBS-Group
2	Sergey Baranov	Deputy Head of IT Department – Senior Vice President, JSC VTB Bank
3	Andrey Burilov	Head of Business Solutions Automation, Renaissance Capital
4	Vahan Vardanyan	Managing IT Director, Moscow Exchange
5	Nikolay Degtyarev	Deputy Chairman of the Executive Board, member of the Executive Board, NSD
6	Alexey Katrich	Managing Director of IT Development Department, Sberbank
7	Evgeny Kostenko	Deputy Director of IT Center, Bank of Russia
8	Vladimir Kurlyandchik	Director for Development, ARQA Technologies
9	Victor Remsha	Chairman of the Board of Directors of Investment Holding, Director, FINAM
10	Dmitry Shatsky	Chief Technologist, OTKRITIE Financial Corporation JSC

<p><b>Highlights of the year:</b> In 2012 the Committee studied issues surrounding IT systems development during the merger of cash settlement and custody systems of NSD, DCC and RTS SH, including questions on continuity of settlement services for the clients of the Moscow Exchange and questions on improvement of NSD’s IT systems, which are required for becoming the Central Securities Depository.</p> <p>The key tasks for 2013 will be:</p> <ul style="list-style-type: none"><li>• review of proposals on development of REPO of the Bank of Russia with collateral management, clearing and settlement;</li></ul>	<ul style="list-style-type: none"><li>• preparation for migration to the new platform for accounting system of the Central Securities Depository;</li><li>• development of the Payment system of NSD.</li></ul> <p>The development of the repository platform, SWIFTNet and WEB services remain the major tasks for the Commission.</p> <p>In 2013 the Commission plans to review development of NSD’s IT strategy and on preparation of the feasibility study for creation of the unified testing platform.</p>
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COMMITTEES OF THE EXECUTIVE BOARD

RISK MANAGEMENT COMMITTEE

**Mission:** The Risk Management Committee’s role is to provide assistance to the Executive Board in the area of corporate risk management. The Committee focuses on improving and strengthening the risk management system at NSD and ensuring immediate response to critical risks.

**Chairman:** Maria Krasnova, Vice President and Director for Corporate Governance, Risk Management and Legal Affairs.

**Highlights of the year:** In 2012, the Committee held 5 meetings to consider the following items of business:

- preparing, approving and implementing descriptions of business processes at NSD;
- auditing the use of automated IT systems and the software development, installation and alteration process;
- assuring the reliability of NSD’s settlement and safekeeping complex.

TENDER COMMITTEE

**Mission:** The Tender Committee’s principal functions are to secure the best terms for procuring goods, services and works needed to support NSD’s operations, and to minimise the risk of NSD contractors failing to deliver.

**Chairman:** Zhanna Klimova, Head of Financial and Business Accounting at NSD.

**Highlights of the year:** In 2012, the Committee held 12 meetings to consider the following items of business:

- selecting the contractor to modernise the key components of the SWIFT complex;

- entering into a support services contract in relation to Oracle software products;

- selecting the contractor to provide advice on improving the risk management system;

- selecting the contractor to implement a pilot system for monitoring information security events;

- selecting a software developer to automate trade repository services;

- selecting a contractor to develop a system for monitoring the SWIFT information resources;

- selecting a technical writer to produce documentation and new FpML-based message forms to interact with the trade repository’s customers;

- selecting an insurance carrier to conclude a voluntary medical insurance contract;

- selecting an insurance broker and insurance company for the purposes of providing bankers’ blanket insurance;

- selecting a language teaching company to launch a corporate English programme;

- selecting a contractor to survey the personnel engagement at NSD; and

- selecting a trainer to launch the management skills programme “Focus on Leadership”.

PRODUCTS AND PROJECTS COMMITTEE

**Mission:** The Committee was set up to manage the project activities at NSD, including the development of new products and services. The Committee’s key role is to assist the Executive Board in deciding on project and product management of the Company and to ensure that the project implementation and management policies and regulations are complied with.

**Chairman:** Nikolay Degtyarev, Deputy Chairman of the Executive Board and a member of the Executive Board at NSD.

**Highlights of the year:** In 2012, the Committee held 4 meetings to consider the following items of business:

- Discussing the Committee’s scope of responsibility, goals and tasks in relation to products and projects.

- Determining the list of requests for software development/upgrade requests to be included in the Automation Plan for Q4 2012.

- Considering the nominations of officers responsible for preparing budget materials for projects and project initiatives scheduled for implementation in 2013.

- Discussing the criteria for decision taking and the procedure for including new development requests in the Automation Plan for Q4 2012.

- Discussing the scope of projects to be implemented in 2013.

- Discussing the possibility of making two servers available to the Planning and Control Department to enable full-scale implementation of MS Project Server 2010 to support more efficient planning and control of the software development and further improvement.

- Discussing proposals regarding changes to the procedures used to plan and monitor the implementation of projects and non-project related requests upon completion of the implementation of the project portfolio management solution at NSD based on MS Project Server 2010.

- Reviewing the implementation status of the Products and Projects Committee’s decisions.

- Considering the budget for the projects to be implemented in 2013.

- Reviewing the draft Policy for Planning Software Development and Improvement.

- Discussing the report on the principles and procedures for granting licences to use MS Project Professional 2010.

- Considering the planned goals and anticipated results of the following projects:

– Conversion of Depositary Receipts;

– Developing the Information Analysis System “Effectiveness of Operational Processes”;

– Prioritising instructions;

– Processing of Transactions with Investment Fund Units.

- Considering the progress report on implementing the Project Portfolio Management System at NSD based on MS Project Server 2010.

- Discussing the report on the principles and methods of planning and controlling the project management activities at NSD.

- Preparing a short list of projects at NSD proposed to be awarded bonuses based on the 2012 results.

- Releases of the Alameda platform and DPO in December 2012.

- Prioritising the projects scheduled for 2013.

REPOSITORY COMMITTEE

**Mission:** The Repository Committee’s primary role is to consider proposals and give recommendations to the NSD Executive Board designed to develop and improve the NSD trade repository activities.

**Chairman:** Pavel Solovyev, Head of Repository Development, NSD.

**Highlights of the year:** In 2012, the Trade Repository Committee held one meeting to consider the draft 2013

roadmap to the Trade Repository and the proposed changes to the composition and structure of repository messages in 2013. The Committee launched the development of proposals to streamline the existing matching mechanism for trade repository’s messages, elected the Committee’s Deputy Chairman and discussed an increase in the number of the Committee members.

COMMITTEES OF THE CHAIRMAN OF THE EXECUTIVE BOARD

ARCHITECTURAL COMMITTEE

**Mission:** The Architectural Committee’s key responsibilities are as follows:

- preparing proposals to ensure uninterrupted and reliable operation of the electronic systems and IT-infrastructure serving as a basis for NSD’s business;
- preparing proposals to ensure competitive advantages and leadership for NSD owing to the development and control of the implementation of the IT-strategy, introducing and using advanced and promising clearing, settlement, and safekeeping technologies to address the strategic, tactical and operational tasks set before NSD.

**Chairman:** Nikolay Degtyarev, Deputy Chairman of the Executive Board and member of the NSD Executive Board.

**Highlights of the year:** During 2012, the Committee held two meetings to consider the following items of business:

- the implementation status of the “Automated Electronic Settlement System”(AESS);
- the possibility of using the BI technology at NSD; and
- comparing the automated systems at NSD and DCC and producing proposals on their use.

UPDATE COMMITTEE

**Mission:** The main purpose of the committee is quality analysis of control mechanisms during software updates and IT infrastructure, risk management during updates.

**Chairman:** Andrey Shlyppo, Vice-President, Operational director.

**The main tasks of the Committee are:**

- analysis of the control measures used or planned during preparation to the update;
- working-out of measures to decrease the risk of negative impact of updates on quality of provided services.

**The Committee performs the following functions:**

- approval of updates, brought up to the Committee (including the updates during installation of new software releases);
- additional analysis of planned updates impact on provided services; collective working-out of measures to minimize the negative impact of each update; coordination of people, participating in the update;
- approval of software releases’ composition;
- analysis of failed updates, updates which caused incidents, or updates which impact analysis appeared incorrect, in order to work-out new management measures;
- analysis of updates, applied without proper approval procedures;
- analysis of situations, when decisions of the Committee have not been fulfilled;
- analysis of disputable and conflictive situations, connected to the update management and software release composition.

CUSTOMER COMMITTEES

CUSTOMER COMMITTEE FOR QUALITY CONTROL AND RISK MANAGEMENT

**Mission:** The key role of the Customer Committee for Quality Control and Risk Management is to make recommendations to 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 various 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 about new services and facilities to be implemented, and supporting the promotion of such services in the financial services market;

- approving internal regulations setting out the measures aimed at mitigating credit, operational, and other risks, including risks connected with the engagement both in clearing operations and other areas of business. Such measures include stress testing, measures aimed at ensuring failure-free operation of software and hardware being used in clearing operations, and measures aimed at preventing and resolving conflicts of interest that may arise in the course of clearing operations and due to the engagement both in such operations and other areas of business; and

- approving internal regulations setting out the measures to be taken by NSD in the event of emergency and aimed at ensuring the continuity of NSD’s clearing operations.

**Chairman:** Yury Dubin, Director of Depository, Sberbank of Russia.

**Highlights of the year:** In 2012, the Committee held four meetings and considered, among others, the following matters:

- results of the customer satisfaction survey;
- product range and tariffs for the united securities depository;
- changes in the FOP/DVP trade matching technology (based on the results of the Committees’ members surveying);
- economic risks management at NSD;
- the need for the establishment of a centralized information system to contain comprehensive information on issuers and securities. Progress to date and development prospects. Current and potential challenges/issues;
- obtainment of the CSD status: progress to date and plans;
- NSD’s LUCH Software upgrade plans for 2012.
- the possibility of paying distributions to parties who are not holders of securities;
- approval of a list of measures aimed at mitigating risks arising in the course of clearing operations and due to the engagement both in such operations and other areas of business in the securities market;
- approval of NSD’s Business Continuity Policy.

CUSTOMER COMMITTEE FOR SETTLEMENT AND DEPOSITORY SERVICES AND TARIFFS

**Mission:** The key functions of the Customer Committee for Settlement and Depository Services and Tariffs are as follows:

- liaising with financial market participants for the purpose of studying customers’ needs and analysing new market trends;
- making recommendations to NSD’s Supervisory Board and executive bodies on the following issues;
- development of depository and settlement products;
- development and standardization of tariffs;
- setting and/or increasing fees for NSD’s depository services;
- marketing policy aimed at offering competitive services; and
- other issues directly related to NSD’s development strategy.

**Chairman:** Maria Ivanova, Head of Depository Department, LLC “Deutsche Bank”<sup>17</sup>.

**Highlights:** In 2012, the Committee held seven meetings and considered 17 matters, including the following:

- organizational aspects of the Committee’s activities;
- integration of NSD and DCC: further steps and a concept of the common product range and tariffs for the united securities depository;
- NSD’s tariff policy;

- changes in the fees for NSD’s depository, clearing, information, and issuer services, as well as services for providing access to S.W.I.F.T. services, and cash settlement services;
- introduction of adjustment factors to the fees charged for the safekeeping of securities recorded by international securities depositories;
- results of the customer satisfaction survey;
- approval of NSD’s Clearing Rules;
- new structure of NSD’s trading accounts;
- the possibility of changing time limits for paying NSD’s invoices.

CUSTOMER COMMITTEE FOR REGISTRAR AND DEPOSITORY RELATIONS

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

- making recommendations to improve existing methods of interaction between NSD and registrars maintaining securities registers/specialized depositories maintaining registers of unitholders of mutual funds;
- making proposals to change existing technologies being used for the interaction between NSD and registrars, including electronic document interchange technologies;
- making proposals to develop new technologies aimed to improve the quality of interaction between NSD and registrars/specialized depositories; and handling any other issues related to the Committee’s tasks.

**Chairman:** Mikhail Nedelskiy, Director-general, Registrar Society “STATUS”<sup>18</sup>.

<sup>17</sup> By 29.06.2012 the committee was chaired by Tatyana Chepeleva, Project director of the OTKRITIE Brokerage house

<sup>18</sup> Prior to 16.11.2012 the committee was chaired by Natalia Sidorova, Head Securities Services, ING BANK (EURASIA) ZAO

**Highlights of the year:** In 2012, the Committee held two meetings at which:

- specific aspects of interaction between CSD and registrars were discussed;
- a joint ad-hoc group (composed of members of NSD’s Customer Committee for Registrar and Depository Relations and members of the relevant PARTAD committees) was established for analysing the laws and making proposals for interaction between CSD and registrars maintaining share registers;
- the Regulations for Interaction between Registrars and the Central Securities Depository were approved; and
- a joint ad-hoc group (composed of members of NSD’s Customer Committee for Registrar and Depository Relations and members of the relevant PARTAD committees) was established for analysing the laws and making proposals for interaction between CSD and registrars maintaining registers of unit holders of mutual funds, and the relevant Regulations were further discussed.

NATIONAL SETTLEMENT DEPOSITORY CUSTOMER COMMITTEE (CENTRAL SECURITIES DEPOSITORY CUSTOMER COMMITTEE)

**Mission:** The Committee is responsible for reviewing and approving internal regulations (amendments thereto) of NSD a central securities depository, including regulations that require approval by the federal executive authority in charge of financial markets.

**Chairman:** Veronika Vasilieva, First Deputy Director, Executive director, OOO Computershare.

**Highlights of the year:** In 2012, there were 5 meetings of the Committee, at which the following matters were discussed:

- Fees for NSD’s services.
- A draft of NSD’s Client Complaint and Inquiry Handling Regulations.
- A draft of NSD’s Terms and Conditions of Depository Operations.
- A draft of NSD’s Electronic Communication Rules.
- A draft of NSD’s Rules of Performing Transactions and Data Interchange in the Course of Depository Operations.
- A draft of NSD’s Risk Management Related to the Activities as a Central Securities Depository.
- NSD’s fees for the services related to the opening and maintenance of NSD’s individual accounts with Euroclear Bank S.A./N.V. and Clearstream Banking for the purpose of record keeping of clients’ securities and cash.
- NSD’s fees for depository services related to the making of securities transactions using a special securities sub-account.

INFORMATION DISCLOSURE

In October 2012 the Supervisory Board of NSD passed The Rules of Information Disclosure of NSD (the Rules) which are based on the order of the FSFM #12-2761/pz-i dated 06.11.2012. The Rules define the procedure of information disclosure, i.e. provision of the following information to indefinite or unlimited number of concerned parties:

- information disclosed by NSD according to the Russian legislation;
- information disclosed by NSD on its own accord or based on the request of the concerned party.

The Order of the CEO #198 based on the Rules was issued on 22.10.2012. The Order sets the Procedure of preparation, checking and approval of information, disclosed by NSD as a Central securities depository, defines the list of disclosed materials (data, facts, documents and other information) and sets persons, responsible for preparation, checking and approval of disclosed information.

The rules establish that NSD upholds the principle of information transparency to shareholders, clients, business partners, counterparties, authorities, NSD’s employees and other concerned parties, following the rules below:

- information disclosure is in line with development strategy of NSD and Moscow Exchange;
- the provided information is authentic and available;
- timely, regular and indiscriminative information disclosure;
- keeping the balance between transparency and commercial interests of NSD and Moscow Exchange;
- following Russian legislation on commercial and banking secrets and inside information, and internal regulations of NSD on handling confidential data;

- following the professional ethics standards;
- communication channels should provide free, easy and cheap access for concerned parties to disclosed information

In addition to common communication channels NSD discloses information and communicates with counterparties via popular social networks: Twitter, LinkedIn, Facebook and Investor.ru.

AUDIT

INTERNAL AUDIT COMMISSION

The Internal Audit Commission is the controlling body responsible for exercising internal control over NSD’s financial and business activities. Members of the Internal Audit Commission are elected at annual General Meetings of Shareholders. The current members of the Internal Audit Commission are listed in the table below.

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

MEMBERS OF NSD’S INTERNAL AUDIT COMMISSION (AS OF 31 DECEMBER 2012)

1	Olga Gordienko	Chief Accountant, Moscow Exchange
2	Irina Ryazhskikh	Head of Budgeting and Financial Accounting Division, Moscow Exchange
3	Vladimir Sukhachev	Head of Internal Audit Service, member of the Audit Committee of the Board of Directors, Moscow Exchange

MATERIAL ASPECTS OF INTERACTION WITH EXTERNAL AUDITORS

A special committee has been set up to select independent auditors for the companies of the MICEX-RTS Group for 2011–2013, which arranged a competitive tender among the ‘Big Four’ audit 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 2012, the Audit Committee decided to suggest to NSD’s Supervisory Board that the annual General Meeting of Shareholders approve the appointment of Ernst & Young Vneshaudit CJSC as auditors for NSD for the period until the annual General Meeting of Shareholders in 2013.

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



Full name	Ernst & Young Vneshaudit Closed Joint-Stock Company
Short name	Ernst & Young Vneshaudit CJSC
Registered office	77 Sadovnicheskaya Naberezhnaya, bldg. 1, Moscow 115035
Telephone and fax numbers	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 in which the auditor has (had) membership	Self-Regulatory Organization Non-Profit Partnership "Audit Chamber of Russia" (ACR) Pursuant to the resolution of ACR 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 under the Russian laws and IFRS.	2011, 2012

Ernst & Young Vneshaudit CJSC is a member of Self-Regulatory Organization Non-Profit Partnership "Audit Chamber of Russia" (ACR). Ernst & Young Vneshaudit CJSC is 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 under identification number 10301017410.

Ernst & Young Vneshaudit CJSC is authorized under Russian laws to conduct independent audits of NSD's accounting system, financial statements (accounts) and tax reports, the financial results, and NSD's internal control system, as well as to prepare and present an auditor's report on NSD's financial statements and a detailed information report to NSD's CEO.

Ernst & Young Vneshaudit CJSC does not have any significant common interests with NSD or the Moscow Exchange Group.

Audit services are provided under an Audit Services Agreement. An audit is only intended to express an opinion on the validity of NSD's financial statements and on whether the accounting records are maintained by NSD in compliance with the applicable Russian laws. Validity 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 such data, regarding NSD's performance results, financial position, and assets, and make informed decisions. During the audit period, the auditors also examine the tax accounting books and tax reports filed by NSD in the forms required (i.e., tax returns, tax calculations, etc.) and determine whether any tax relief was obtained lawfully.

AN AUDIT INCLUDES SEVERAL PHASES:

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

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

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

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

- ensure that any documents received by the auditor in the course of an 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 requested by NSD, supply NSD with the necessary information on the requirements of the Russian laws with respect 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 related to NSD's financial and business activities and the availability of any assets recorded in such documents.

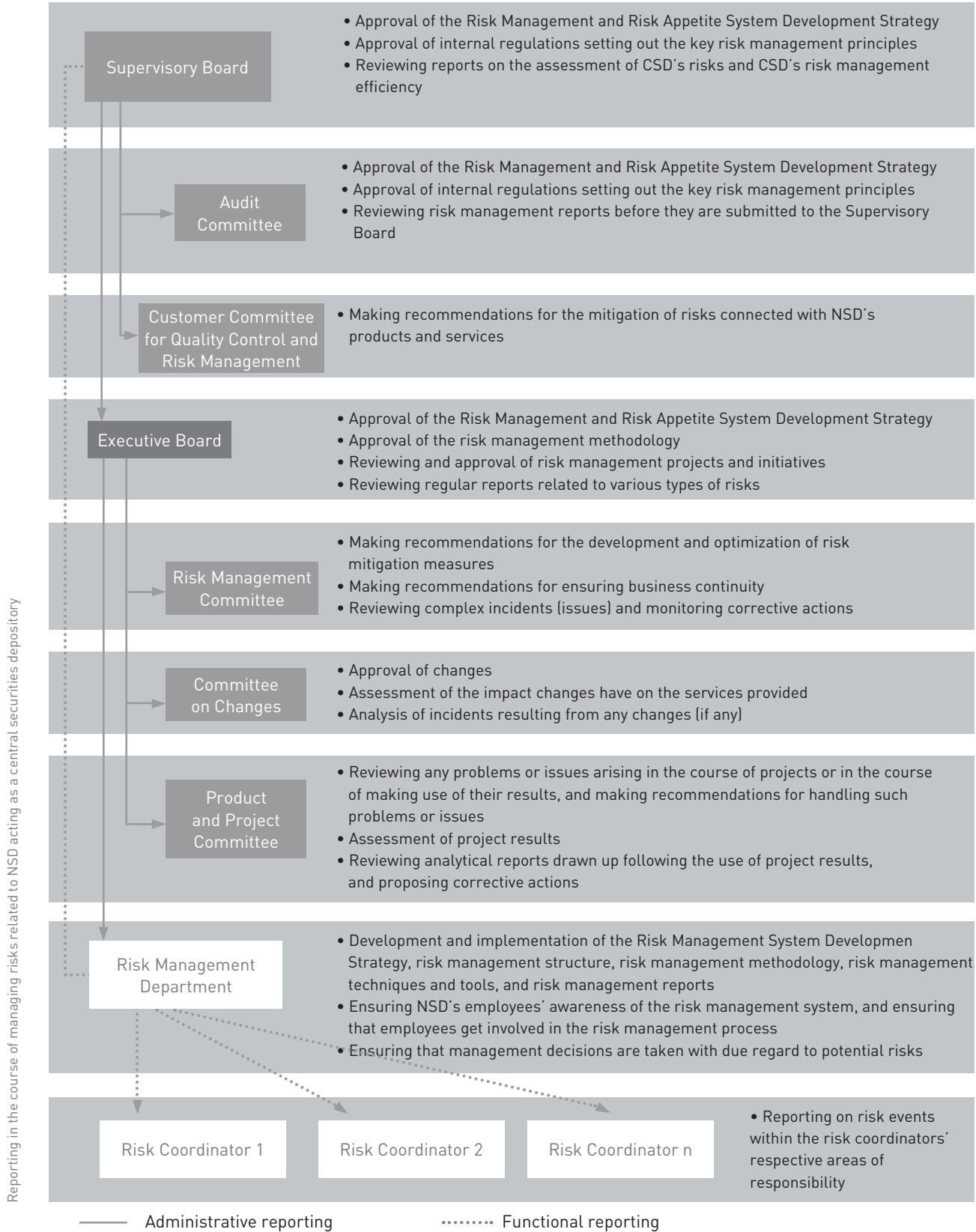
Where the auditor discovers any breach of the tax laws or any material misstatements in NSD's financial statements or tax reports, the auditor will bring to the notice of NSD's executives that they may be held liable for such breaches and that it is necessary to make amendments to the financial statements or make adjustments to the tax returns and calculations. Provided that NSD complies with the auditor's recommendations and makes necessary amendments/adjustments to the financial statements or tax returns and calculations, the auditor may assist NSD in defending against third parties.

The auditor determines, at its own discretion, forms and methods of an audit based on the requirements imposed by the applicable Russian laws and regulations, subject to the specific terms and conditions of the Audit Services Agreement.

In the course of an audit, NSD undertakes that it will make the relevant arrangements and provide assistance to the auditor to ensure that the financial and tax audits are completed in a timely fashion and in full. NSD provides the auditor with all the information and documents requested and needed for the audit, provides full clarifications and confirmations as may be requested by the auditor, and requests any information necessary for the audit from third parties.

RISK MANAGEMENT

RISK MANAGEMENT ORGANIZATIONAL STRUCTURE AT NSD



RISK MANAGEMENT ORGANIZATIONAL STRUCTURE AT NSD (CONTINUED FROM THE PREVIOUS PAGE)

For the purpose of implementing an efficient risk management system, NSD has in place a multilevel risk management structure, which includes the Supervisory Board, executive bodies, special-purpose committees, the Risk Management Department, and responsible employees.

The Supervisory Board and the Executive Board are responsible for shaping the corporate culture that is based on the efficient management of risks at all levels within the company. The Supervisory Board determines the key risk management principles and monitors compliance with such principles at all decision-making levels.

The key risk management principles include:

- Risk management in compliance with the applicable guidelines issued by regulators and in accordance with the international best practices.
- Continuous and end-to-end risk management.
- Application of consistent methodological approaches to identification, analysis, assessment, monitoring, and control of risks.
- Integration of the risk management system into the management decision-making process.
- Involvement of all of the company's employees in the risk management process.
- Designation of a single department responsible for risk management (Risk Management Department).
- Ensuring functional independence of the Risk Management Department from other departments.
- Regular independent assessment of the adequacy and efficiency of the risk management tools and techniques by internal and external auditors.

The executive body ensures that an efficient and reliable management structure is in place, with precisely defined, transparent, and consistent areas of responsibility. The executive body is responsible for the consistent implementation and application, at all levels of the company, of the principles, processes, and systems for managing risks inherent to all of the company's significant products, areas of business, processes, and systems, in accordance with the risk appetite levels determined by the Supervisory Board.

To certify the efficiency of the risk management system, the system in general and its components are subjected to a regular independent assessment by internal and external auditors. As part of the annual independent assessment, NSD is ranked by Thomas Murray, a specialist custody rating, risk management and research firm. In addition, in accordance with the Law "On the Central Securities Depository", NSD is required to undergo an operational audit in accordance with the international audit standards once every two years.

The Risk Management Department plays the key role in building and developing the risk management system. The Department coordinates the risk management process on an end-to-end basis and develops the risk management methodology. One of the Department's priorities is to ensure the maximum involvement of NSD's employees in the risk management process. In performing its functions, the Risk Management Department acts in accordance with the international best practices and standards in the area of risk management, such as the recommendations of the Basel Committee on Banking Supervision, ERM COSO, CPSS IOSCO Principles for Financial Market Infrastructures, etc.

NSD’S RISK CLASSIFICATION AND RISK MANAGEMENT APPROACHES

NSD’s risk management structure includes the following components:

- Development of a company’s strategy
- Company’s risk management strategy and risk appetite
- Risk management methodology and organizational structure
- Risk identification
- Risk analysis and assessment
- Risk monitoring and control
- Risk management reporting

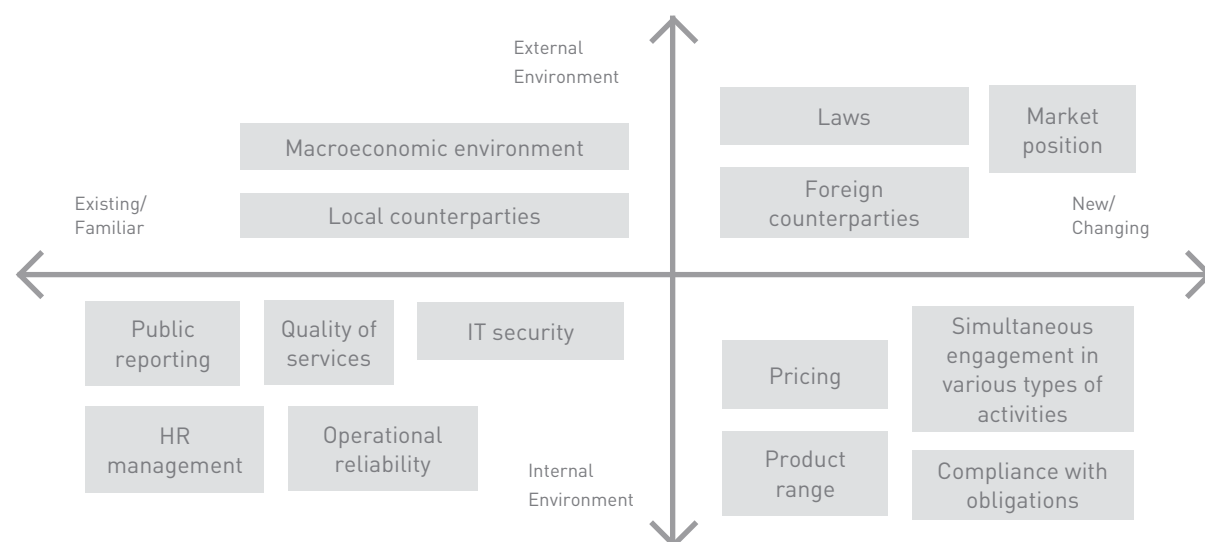
Risk Type	Definition	Distinctive Features of Risk Management
Operational risk	risk of loss resulting from inadequate or failed internal processes, people and systems or from external events	<ul style="list-style-type: none"><li>• analytical database</li><li>• risk and control self-assessment</li><li>• key risk indicators</li><li>• risk assessment for new products/processes</li><li>• regular reporting</li></ul>
Legal risk	risk of loss resulting from failure to comply with regulatory requirements or contracts, legal errors in the course of activities, defects of the legal system (such as inconsistent laws, lack of regulation of certain issues arising in the course of activities of a credit organization, etc.), or counterparties’ failure to comply with regulatory requirements or contracts	<ul style="list-style-type: none"><li>• analysis of risks arising due to differences between the Russian laws and the laws of (or business practices in) foreign jurisdictions with residents of which NSD has any contractual relationship</li><li>• standard agreement templates</li><li>• internal procedures for approval of legal documents affecting NSD</li><li>• a formal procedure for making necessary amendments to NSD’s internal regulations following any changes in laws</li></ul>
Regulatory risk (compliance risk)	risk of legal sanctions or sanctions by regulatory authorities, or risk of significant financial loss or loss of reputation resulting from failure to comply with laws, internal guidelines or rules, self-regulatory organizations’ standards, or codes of conduct applicable to NSD’s activities	<ul style="list-style-type: none"><li>• establishing a regulatory risk management process with due regard to the additional requirements imposed on NSD as a central securities depository</li></ul>

Risk Type	Definition	Distinctive Features of Risk Management
Reputation risk	risk of loss resulting from loss of clients (counterparties) due to a negative perception by public of NSD’s operational stability, quality of NSD’s services, or the nature of NSD’s activities in general	<ul style="list-style-type: none"><li>• compliance with the ‘know your customer’ principle</li><li>• monitoring of positive and negative reports on NSD in mass media or other sources</li><li>• ensuring the accuracy of financial statements or other information disclosed to clients, counterparties, regulatory or supervisory authorities, or other stakeholders</li><li>• monitoring of changes in Russian laws</li></ul>
Strategy risk	risk of loss resulting from errors in NSD’s operational or development strategy	<ul style="list-style-type: none"><li>• engagement of a sufficient number of qualified internal and external experts for the purposes of developing a strategy</li><li>• ensuring that procedures are in place for a regular review of the strategy and assessment of deviations from the strategy</li><li>• current planning in support of the strategy, and setting tasks to strategic business units in accordance with the strategy (KPIs, KRIs, etc.)</li></ul>
Market risk	risk of loss resulting from unfavourable changes in the market price of financial instruments in NSD’s trading portfolio or the market price of NSD’s derivatives, or currency exchange rates, or the market price of precious metals	<ul style="list-style-type: none"><li>• limit policy</li><li>• investment criteria and limits applicable to financial instruments</li><li>• early warning indicators</li><li>• stress testing</li><li>• risk degree assessment and regular reporting</li></ul>
Credit risk	risk of loss resulting from a counterparty’s non-performance, untimely performance, or incomplete performance of contractual financial obligations to NSD	<ul style="list-style-type: none"><li>• making provisions for NSD’s credit risk-bearing assets</li><li>• limit policy</li><li>• risk degree assessment and regular reporting</li></ul>
Liquidity risk	risk of loss resulting from NSD’s incapability to meet its liabilities in full	<ul style="list-style-type: none"><li>• NSD’s investment criteria and investment declaration</li><li>• liquidity ratio limits</li><li>• stress testing</li><li>• risk degree assessment and regular reporting</li></ul>

## KEY RISK AREAS AND MAIN FOCUS

Like any other organization, NSD faces various uncertainties and risks on a daily basis. To understand all the risks relevant to NSD, it is required to take account of the following risks:

- NSD's external risks;
- risks inherent in NSD's day-to-day operations;
- risks connected with any changes in NSD's business; and
- risks that may arise in the future.



## RISK MANAGEMENT ACHIEVEMENTS IN 2012 AND PLANS FOR 2013

In 2012 NSD completed the main phases of integration with DCC and RTS Settlement House, thus completely replacing these companies' securities and cash settlement activities. An increase in the volume of assets under custody and the number of operations is an important consequence of the integration, which caused changes to the business-processes of the company. Due to this, the efforts of NSD during the last year were concentrated on harmonizing the processes and policies of merging with these companies. The Risk Management department was actively involved in this process and provided wide support to the participants.

The most significant achievement of NSD in 2012 was obtaining the status of the central securities depository.

High requirements set by the FSFM and market participants to the applicants for this status became the impetus for NSD to improve the processes and systems of the company in order to reach the required high level of quality and reliability. For the risk management system of the central securities depository the FFMS issued the stand-alone regulation "Requirements to risk management and internal control of central securities depository". This document clearly sets out the required level of maturity of the risk management system and connected processes, which is required to become the central securities depository. As a result one of the main tasks of risk management in 2012 was the coordination of activities to meet all the requirements of the regulator.

One of the essential requirements of obtaining this status was passing the operational audit according to international audit standards. In June 2012 NSD passed

the operational audit according to the ISAE 3402 standard for the first time and provided the audit report to the FSFM with other documents required for accreditation.

The IT factor was an important aspect of the project. A forecast increase in the volume of assets under custody, and the number of operations, and significant changes to the technology led to a requirement for massive changes to NSD's IT systems. It was important to estimate beforehand if the systems would handle the increased workload and to work out any correcting actions required. Coordination of this work was entrusted to the Risk Management Department, which maintained the process of interaction of business units and IT, prepared stress scenarios with key units, and analysed the results of stress tests.

Another significant event in 2012 is launch of the trade repository. As the product was new to the Russian financial market and was complex, it required detailed development and multiple-factor analysis of the repository project. Combined efforts of business units, IT, risk management and legislation experts led to successful launch of the project.

In 2012 ZAO KPMG conducted an audit of risk management system of NSD. The key goal of the audit was the objective assessment of the existing risk management system of NSD, finding ways to improve it and to achieve its compliance with the requirements of both Russian and, in future, foreign clients. The audit results laid the basis for a roadmap for risk management development for 2012-2013, which was approved by the NSD's Executive Board and by the Internal Audit Commission of the Supervisory Board of NSD.

In November – December 2012, NSD successfully passed the CSD rating audit of the Thomas Murray agency. As a result the agency improved NSD's rating to AA- with stable outlook, which corresponds to a very low risk level.

In 2013 NSD has many tasks to carry out in relation to the development of the risk management system. Work on some of these has already started during the last year. Notably, at the end of 2012, NSD obtained the status of being a systemically important Payment System. This

status also assumes a number of requirements and expectations from market participants and regulators. One of these tasks, which the Risk Management Department sets for themselves, is real-time risk monitoring. The absolute priority for NSD is the provision of uninterrupted functioning of the Payment System for its participants.

Another important direction of risk management development for the forthcoming year will be the project to make NSD compliant with the Principles for Financial Market Infrastructures CPSS IOSCO (FMI principles). FMI principles are the set of recommendations and activity standards for different financial institutions across the world. Complying with the Principles is an indication of the high reliability and efficiency of an organization.

Another goal for 2013 is the development of risk management tools and actions to increase staff involvement with the risk management process of the company.

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 or other transactions; the effectiveness of assets and liabilities management (including securing the safety of assets); and managing the bank and other inherent risks, i.e.:
- identifying, measuring and determining risks having a material effect on NSD’s activities which, if materialized, may result in losses and/or decline in liquidity due to the occurrence of adverse events;
- continuous monitoring of banking risks; and
- taking measures to maintain banking risks at a level which does not pose a threat to the company’s financial stability and the interests of NSD’s clients, counterparties, or shareholders;
- ensuring that 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 applicable laws and regulations, standards of self-regulatory organizations, and NSD’s constitutional documents and internal regulations;
- 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 investors, advertising laws, and NSD’s internal regulations.

In 2012, the Internal Control Department (ICD) comprised two functional units responsible for control over NSD’s depository operations and internal audit of NSD’s activities as a credit organization.

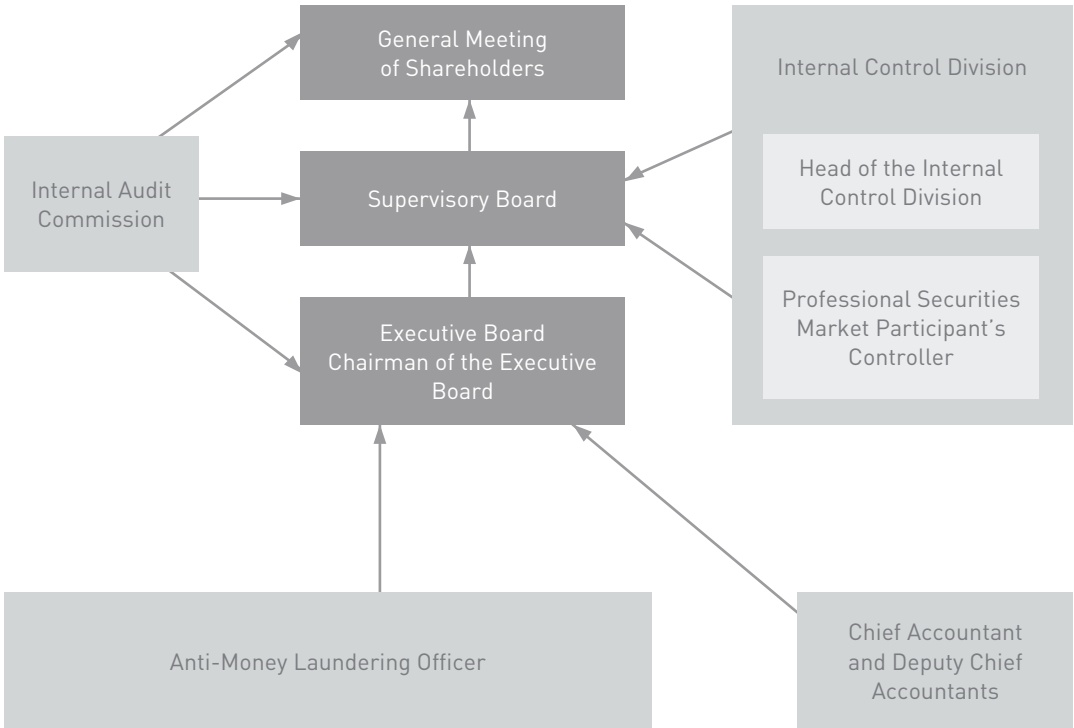
In accordance with the international practices, NSD applies a risk-oriented audit approach.

In 2012, NSD’s internal regulations governing the activities of ICD were updated. In accordance with Order No. 12-82/pz-n “On the Approval of Requirements to a Central Securities Depository’s Activities as Related to the Risk Management and Internal Control, as well as Requirements to Certain Documents of the Central Securities Depository” dated 2 October 2012, NSD’s Internal Control Rules (including the provisions on the Internal Control System and the Internal Control Department) were drafted, approved, and implemented.

A strict system of ICD’s accountability to NSD’s management bodies has been put in place.

The accountability of internal control bodies is shown in the chart below.

INTERNAL CONTROL SYSTEM AND ACCOUNTABILITY





## INFORMATION SECURITY

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

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

The Information Security Service is entrusted with creating an effective system to manage IS risks and conducting work designed to counter any possible threats. In accordance with the requirements set out in the BR ISBS Package, the Information Security Service is actively involved in developing terms of reference, implementing hardware and software, and performing expert review of contracts and agreements. It regulates processes designed to separate users' access, sets up and maintains information protection tools, allocates access rights, and maintains key information.

To maintain and raise the achieved IS level, NSD works on the development of information protection tools being used in the course of operating automated systems. In the reporting year, an automated IS event monitoring system was successfully implemented, which allows users to analyse a virtually unlimited amount of information for the purpose of analysing IS incidents. The work is underway to develop and introduce an automated system for recording access rights and users' rights, as well as to prepare data sheets for computer work stations. In addition, work has commenced to introduce a vulnerability scanning system and a confidential information leakage prevention system, as well as for migration to an upgraded system designed for recording, managing, and auditing authentication tools.

As part of the private policy for ensuring IS in the open space office environment, there are controls (including daily inspections of computer work stations) in place aimed at preventing any confidential information

from being leaked or compromised. In addition, NSD has expanded the scope of application of the IS arrangements, tightened control over the activities of information resource users, and improved the efficiency of responding to any shortcomings discovered. To date, 24 audits of system users and administrators have been conducted using the existing methodologies. Following the completion of such audits, reports have been prepared and submitted to the relevant persons. With the help of special distance learning courses, NSD's employees' awareness of the IS-related issues has been increased.

The Information Security Service is continuously working on the improvement of the internal regulatory framework on IS, and has changed the structure of internal regulations, and drafted and introduced a number of internal regulations in compliance with the Laws "On the Central Securities Depository" and "On the National Payment System".

The Information Security Service's employees are responsible for the processing and protection of personal data. A distance learning course for the processing of personal data has been prepared for NSD's staff and. 92% of NSD's employees have completed, and been tested as part of, the course.

In 2012, a self-assessment of the IS level was conducted to make sure that the requirements set forth by the BR ISBS Package were met. The self-assessment was conducted by an audit team comprised of representatives of the Information Technology Department, Internal Control Department, Business Continuity Service, and Information Security Service. The self-assessment covered four departments (three in 2011) and 18 automated information systems (four in 2011). The self-assessment confirmed the 3rd level of compliance, with the final score being increased to 0.78.

## BUSINESS CONTINUITY AND DISASTER RECOVERY PLANNING

The NSD Business Continuity Service (BCS) is responsible for creating an efficient system for managing business continuity that will help preserve the continuity of the company's business processes in the event of an emergency and promptly resume normal services.

To achieve these goals, the BCS applies the most recent methodologies developed by internationally recognized organizations and best practices, both foreign and domestic.

There are backup infrastructure components available at NSD, including a backup site and a backup data center that meet all of the relevant requirements.

As part of the process to implement an internal regulatory framework at NSD to ensure business continuity, the BCS has updated NSD's Business Continuity Policy (approved by the Supervisory Board on 16 October 2012 (Minutes No. 15/2012)), and the Business Continuity and Disaster Recovery Plans for NSD's key departments. The following documents have been prepared and introduced:

- The Emergency Communication Plan;
- Guidelines for Preparing NSD's Business Continuity and/or Disaster Recovery Plans;
- Emergency Instructions for NSD's employees, and other documents.

In 2012 two tests were run at NSD:

- testing designed to check the possibility of performing tasks related to operational (depository) processes (including registration, generation, and execution of internal (corrective) instructions) from the backup site premises; and
- testing designed to confirm that it is possible to follow NSD's critical business processes from the backup site premises.

The analysis of the results suggested that NSD's backup site tests have been a success, and that NSD's backup site is ready for use in the event of any emergency.

PREVENTING NSD’S INVOLVEMENT  
IN UNLAWFUL ACTIVITIES

COMBATING MONEY LAUNDERING  
AND TERRORIST FINANCING

In 2012, NSD was actively involved in ensuring compliance with Federal Law No. 115-FZ “On Anti-Money Laundering and Terrorist Financing” (the “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 (the “AML Rules”), and introduced a number of other internal regulations in the area in question.

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 nature of NSD’s activities and those of its clients, the typical features of transactions requiring special attention and helping identify suspicious transactions.

On-going analysis of our clients’ 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 clients are engaged in suspicious activities, NSD terminates their online banking services agreements and increases the fees charged for making payments using hard copy payment instructions (to 10 percent of the transfer amount).

In 2012, NSD submitted timely reports to the Federal Financial Monitoring Service of the Russian Federation (Rosfinmonitoring) on transactions subject to mandatory control and suspicious 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 for by the Russian laws, including a set of measures designed to implement the KYC approach.

In 2012, efforts were continued to provide training and further education to NSD’s employees in the area of AML/CFT, including in third-party organizations.

COMBATING INSIDER DEALING AND MARKET  
MANIPULATION

In connection with the entry into force on 27 January 2011 of Federal Law No. 224-FZ “On Combating Insider Dealing and Market Manipulation and on Making Amendments to Certain Laws of the Russian Federation” dated 27 July 2010, NSD conducted work to ensure compliance with that Law and the related regulations issued by the federal executive authority in charge of financial markets:

1. A responsible person (compliance officer) was appointed to monitor the compliance with Federal Law No. 224-FZ dated 27 July 2010 and the regulations adopted to implement it.
2. The Supervisory Board was provided with quarterly reports from the compliance officer.
3. 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 Monitoring Compliance with Federal Law No. 224-FZ dated 27 July 2010 and the Regulations Adopted Pursuant to it;
  - a list of NSD’s insider information; and
  - the procedure for maintaining the insider list at NSD;
4. Within the time frame prescribed by the federal executive authority in charge of financial markets, NSD provided its insider lists to stock exchanges.

5. Other measures were taken related to the maintenance of the insider lists, 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 analysed whether the grounds for including NSD 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 determine whether NSD might have access to such information); and
  - records were made of notices of inclusion in/removal from NSD’s insider list.

NSD’S INTERESTS IN OTHER ENTITIES

Entity’s Full and Short Name	Registered Office	Interest in the Share Capital, %
Closed Joint Stock Company “Depository Clearing Company”, DCC	Building 1, 4/7, Vozdvizhenka Street, Moscow, Russian Federation	99,998
Settlement depository company (Closed Joint Stock Company), SDCO (CJSC)	Building 2, 9, 2-nd Verkhny Mikhailovsky Proezd, 115419, Moscow, Russian Federation	28,543
Stock company Saint-Petersburg Currency Exchange, SPCEX SC	12/23, Sadovaya Street, Saint-Petersburg, Russian Federation	2,005
S.W.I.F.T. SCRL (Society for Worldwide Interbank Financial Telecommunication)	Avenue Adèle 1, 1310 La Hulpe, Belgium	0,005

NSD’S MEMBERSHIP IN OTHER ORGANIZATIONS

Organization’s Name	Registered Office
European Central Securities Depository Association, ECSDA	Rond-Point Schuman 6, bte 5, B-1040 Brussels, Belgium
Association of National Numbering Agencies, ANNA	6, Avenue de Schiphol 1140 Brussels, Belgium
Association of Eurasian Central Securities Depositories, AECS D	1/13, bldg. 8, Sredny Kislovsky Pereulok, Moscow, 125009, Russian Federation
National Securities Market Association, NSMA	1, Kibalchicha Street, 129164, Moscow, Russian Federation
Russian National SWIFT Association, ROSSWIFT	21, bldg. 3, Architectora Vlasova Street, 117335, Moscow, Russian Federation
Association for Banking Information Security Standards, ABISS	2, bldg. 49, Ryazanskiy Prospekt, Moscow, Russian Federation

CORPORATE SOCIAL RESPONSIBILITY

HR MANAGEMENT

The human resource (HR) management policy is one of the key instruments to implement the Company’s strategy and achieve its targets.

In the context of the businesses integration of NSD and DCC, one of the priorities in the HR policy in 2012 was to create a seamless team of professionals and set up an efficient organisational structure at the consolidated company.

As a result of the organisational and staff changes associated with the transition to a new organisational structure, the span-of-control figures grew more than twofold.

As at 31 December 2012, NSD had 526 employees<sup>19</sup>.

The average age of NSD employees is 40 years old, with 93 percent of employees holding university degrees.

NSD is proud to be able to offer a stable salary, which is always paid on time. The level of salary generally corresponds to that prevailing on the labour market. The Company monitors the adequacy of its salaries and fringe benefits as compared to the market level on a regular basis.

NSD pays special attention to the social support provided to its employees. Such support includes providing voluntary medical insurance, organising New Year’s events for employees’ children, supporting sports activities, providing corporate mobile phones, parental allowance in connection with childbirth, allowances in connection with anniversaries, retirement, accidents or emergencies occurring to our employees or their close relatives.

In the event of an employee’s illness, NSD pays 100 percent salary for 10 workdays during a calendar year and provides additional financial aid in relation to paid maternity leave.

2012 saw the launch of a new project to review and update the existing grading system which will lead to further specification of the scope of fringe benefits offered to certain levels of employees and update the corporate benefits matrix at NSD.

PERFORMANCE MANAGEMENT

The Company has in place a comprehensive annual performance review system. All of the Company’s employees have KPIs set for the year. Based on their annual performance, employees are paid annual bonuses, the amount of which depends on the achievement of the employee’s personal KPIs. The KPI assessment system helps the Company manage its performance.

<sup>19</sup> This figure includes all staff members (including part-time workers, employees on maternity leave and temporary workers)

**RECRUITMENT AND ONBOARDING SYSTEM**

In order to form and develop a professional team of employees, NSD updates its rules and policies used to select candidates to fill vacancies in the Company. This helped the Company attract professional employees capable of developing their area of activities. Candidates are selected based on the vacancy profile.

Onboarding new employees is another important aspect of work with new employees. The onboarding process includes getting new hires acquainted with the Company’s key documents and regulations and the team; an induction day; an office tour; arranging the new employee’s workplace; and an orientation talk with the new employee.

**DEVELOPMENT OF THE CORPORATE TRAINING SYSTEM**

In order to strengthen the Company’s competitive advantages by improving the staff’s intellectual potential in 2012, NSD continued to develop its corporate training system.

The Company launched in 2012 a number of new training projects, such as a corporate English learning programme “English Study”, internal subject-oriented training and a corporate management skill development programme “Focus on Leadership”. The Company endeavours to support and develop its employees, thus securing its stable position on the market now and in the future. The English Study corporate programme had 81 participants, 94 employees participated in the internal subject-oriented training, and 109 employees took part in the Focus on Leadership management skills programme. Eight of the Company’s employees were given primary training certificates and then special certificates in the area of securities depository operations.

The Company organised two strategic sessions for top managers designed to achieve the key tasks related to the consolidation of NSD’s and DCC’s managerial teams, and to create common strategic plans for the consolidated companies.

While building up its intellectual potential, the Company is willing to generously share its knowledge and experience with the community. Our employees take an active part in international and Russian forums and conferences. The Company’s executives welcome invitations to make speeches, take part in discussions on relevant issues of business development, and to share their success stories.

**CORPORATE CULTURE DEVELOPMENT**

BIn 2012, NSD continued to actively develop its internal portal. The Company revised the content of the portal sections, added a new section, HR Info, containing all necessary data on personnel relations, and new services-related sections. All of the Company’s key events are reflected on our intranet site.

NSD held seminars for all its employees to discuss the introduction of the common values of the Moscow Exchange Group companies. Each employee received and signed a certificate acknowledging their readiness to translate the common values in all areas of activities.

During the onboarding process, all new employees were given the necessary orientation on the Company’s corporate culture, such as its values and corporate culture code. Each corporate training event included the necessary attributes of the Company’s corporate culture as a measure to further develop and strengthen them.

Based on the employee engagement survey conducted in the Company, the employee engagement index scores stood at 67 percent, which is 2 percentage points higher than those of Russia’s leading companies (according to Hay Group).

**CHARITY ACTIVITIES IN 2012**

According to the 4th Annual Survey of Corporate Charity “Corporate Charity Leaders” conducted by the Vedomosti daily, PriceWaterhouseCoopers and the Non-profit Partnership of Grantmaking Organizations “Donors Forum”, NSD ranked among the top 50 most effective corporate charity providers.

Last year, NSD’s Charity Commission held 7 meetings and considered 38 applications from individuals and legal entities, 12 of which were granted.

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 provided charitable assistance to children from special (correctional) boarding school No. 53 for orphaned children and children without parental care (Type VIII), who were provided with sets of everyday and sports clothes and Christmas presents.

In May 2012, NSD together with the Korea Securities Depository’s representatives held a charitable event “Expanding Social Responsibility Borders”. Our KSD colleagues presented the school’s pupils with computers, laser printers and a TV set. NSD give the children clothes and shoes for the school leaving party.

As part of the Programme “Participation in a Destiny” designed to facilitate the children’s social adaptation, NDC provided charity support to the Udelninsky Specialized Children’s Home for orphaned children, social orphans and handicapped children, and installed plastic windows in the dormitory, purchased furniture, and made repairs in the building. NSD paid for the Children’s Home inhabitants visit to the Snow Queen musical and bought Christmas gifts for them.

In December, our Company’s office was visited by children from the Udelnoe Specialized Children’s Home. During the visit, the children were taken on a tour of the Company’s office. NSD employees told the children about the securities depository’s activities in a simple, game-like form. Such meetings are very important for the Children’s Home residents, because children lacking

parental love and care need to feel the involvement of interested and caring adults in their life.

As part of the programme Children are Our Future, two children were given financial assistance needed to pay for their medical treatment and post-medical rehabilitation.

The athletes of the non-state sports school Children’s Football Club “Ts.A.R.I.” in the Moskvorechye-Saburovo district were given soccer outfit with NSD logo, footballs and training equipment.

NSD also provided charitable aid to the Moscow State University of Geodetic Surveying and Cartography in 2012 to develop its sports facilities.



## INTERNATIONAL COOPERATION

### INTERNATIONAL ACTIVITIES

On 2 May 2012, NSD and Korea Securities Depository (KSD) signed a Memorandum of Understanding (MOU).

Under the terms of the MOU, KSD and NSD will establish a foundation for cooperation in securities depository and settlement related matters to help foster the prosperity of their financial markets, promote cross-border investment, explore opportunities for cooperation in both depository and settlement operations, and support interaction in the course of the parties' activities.

The parties also agreed to lay the groundwork for sharing information and providing training and technical support with regard to services and business-related matters for the purposes of developing the securities industry in both countries.

The companies have intentions to maintain close working relationships in the future, exchange information, and exchange visits to promote friendship and meet other business objectives.

Before the MOU signing ceremony, NSD's and KSD's representatives visited Orphanage No. 53 supported by NSD for many years. As part of the Expanding Borders of Social Responsibility charity campaign, KSD's representatives granted computers and office equipment to the Orphanage, while NSD's representatives provided graduation suits and dresses to children.

On 16 October 2012, NSD and SIX Financial Information Ltd announced the signing of a Memorandum of Intent concerning the exchange and distribution of corporate action information.

The parties agreed to cooperate and build upon their respective expertise, the result of which will be expansion of the range of information services available to Russian and international securities market participants. In addition, information on Russian companies' corporate actions will be added to SIX Financial Information's data offering.

During the period of 29 October 2012 to 2 November 2012, Moscow Exchange and NSD took part in Sibos 2012, the largest international financial industry conference.

In anticipation of being granted CSD status, NSD arranged a special session (Changes in the Russian Securities Market: Next Steps and Opportunities) for Sibos 2012 participants. During the session, representatives of Moscow Exchange and NSD and global custodian's senior executives discussed the steps to be taken in connection with the assignment of the CSD status to NSD and potential opportunities offered by such status to market participants.

In addition, at the Moscow Exchange Group's booth, NSD arranged a number of workshops for its partners and customers, such as 'Cash and Securities Settlements', 'Establishment of a Central Securities Depository', and 'Building Blocks of Future Excellence. Infrastructure Matters.'

On 30 October 2012, during the Sibos 2012 conference, SWIFT and NSD signed a Memorandum of Understanding that lays a foundation for their mutually beneficial cooperation in evaluation, design and implementation of SWIFT services to adopt flexible trade repository solutions for OTC derivatives and repo trades.

SWIFT and NSD initially intend to enable the exchange of data in NSD's format over SWIFT between NSD's Repository and reporting participants. In addition, they will explore the possibility of developing and implementing other SWIFT-based solutions for OTC derivatives and repo trade reporting.



**NSD’S MEMBERSHIP IN INDUSTRY ASSOCIATIONS**

**World Forum of CSDs (WFC)**

A meeting of The World Forum of CSDs (WFC) was held in Zurich (Switzerland) on 4 June 2012. Representatives of five regional associations of central securities depositories together with CPSS-IOSCO, the World Bank and the Association of Global Custodians (AGC) discussed the methods to assess the infrastructure by regulatory bodies and the requirements for information disclosure proposed by CPSS-IOSCO and aimed at facilitating the implementation of the new Principles for financial market infrastructures.

As a result, the participants of the meeting issued a document summarizing the feedback from CSDs and representing an official reply of the WFC to the public consultation of global regulators with market participants. As CSD business models vary across the globe, the final WFC’s document considers the proposals of CPSS-IOSCO from the CSDs’ point of view. In addition to that letter, some CSDs and regional associations of central securities depositories will send CPSS-IOSCO their individual replies with detailed description of separate concerns.

WFC and AGC work together to harmonize disclosure and improve the information disclosure process in general, as well as to increase the transparency of CSDs. WFC and AGC are convinced that these tasks are accomplished in the interests of all counterparties. However, the parties acknowledged that this initiative would require further cooperation with CPSS-IOSCO, as joint efforts could hardly give the best result in a short period of time till 15 June 2012 (the deadline for submitting comments on this initiative).

WFC proposed to create a working group for issues related to information disclosure that would include representatives from regional CSD associations and the AGC. Bruce Butterill (ACSDA) and Soraya Belghazi (ECSDA) were assigned to work out a general concept of information disclosure by CSDs. All regional associations

discussed this concept and provided their feedback. Each association delegated its representatives to this working group.

Another WFC meeting was held in Osaka (Japan) on 28 October 2012. Discussion at the meetings also focused on preparations for CSD12, a draft program and other issues.

From 6 to 8 September 2012, the IX International Conference of the Association of Eurasian Central Securities Depositories (AECSD) was held in Kyiv (Ukraine).

On the second day of the conference the Annual General Meeting of the AECSD took place, during which the issues related to the Association’s activities in 2012, and plans for its future development were discussed. During the meeting, Eddie Astanin, NSD’s Chairman of the Executive Board, was elected the chairman of the AECSD.

**CSD12**

On 1 October 2012, the AECSD officially opened registration for the 12th Conference of Central Securities Depositories (CSD12) that will take place in St. Petersburg from 28 May to 31 May 2013. CSD12 is supported by the Government of St. Petersburg.

The host of the conference is AECSD. The AECSD’s CSD12 Steering Committee includes representatives of the AECSD members and other regional CSD associations. The head of the Steering Committee is Ms. Olga Rink, PR Director at NSD. The list of the Steering Committee members is disclosed on the AECSD website.

The AECSD has entrusted the function of the CSD12 Forum Secretariat to NSD. An overall control over the conference is exercised by the World Forum of CSDs (WFC).

**INTERNATIONAL CONSULTING COMMITTEE**

On 24-25 April 2012, the first meeting of the International Consulting Committee (ICC) took place in Moscow, at the NSD’s offices. The ICC members include representatives of eight largest foreign global custodians and investment banks. The principal goal of the Committee is to promote the use of international best practices for the purpose of improving the Russian securities market infrastructure and services offered by NSD as a central securities depository.

Following the discussions at the meeting and further consultations, the Committee members prepared a list of the growth areas for the Russian securities market, for which working groups were established. The Committee’s new structure was finally approved at the meeting held in London on 29-30 November 2012. For 2013, the following main focus areas were determined for the Committee: NSD’s services for support of issuers’ corporate actions; the structure of accounts; withholding agent services and disclosure of beneficial owners; NSD’s pricing policy; interaction with the central securities depository; and securities lending and collateral management services.



## MATERIAL SUBSEQUENT EVENTS

6 February

Following the publication on the FSFM's official website of NSD's notification of intention to keep a register of contracts, **NSD started to act as a Repository** and keep a register of repo and currency swap contracts entered into under the master agreement.

7 February

**Euroclear Bank launched new services** for post-trading processing of transactions in Russian federal loan bonds (OFZ), one of the most traded types of Russian government securities. **Largest global companies trading in OFZ bonds** will be able to settle their trades and hold bonds in **Euroclear Bank's foreign nominee account with NSD** acting as a central securities depository. Thus, Russian regulators have provided all clarifications with this regard.

**NSD will initially provide this service with respect to OFZ bonds traded on OTC markets**, and in March 2013 the service will be extended to on-exchange transactions. **The interaction between Euroclear Bank and NSD** will allow their respective customers **to make cross-border** transactions without undue delay.

13 February

**Clearstream, following the opening of a foreign nominee securities account with NSD (Russia's CSD)**, offered its customers an option to settle their trades in the Russian market. This became possible thanks to the joint efforts and technical and legal work of Clearstream and NSD. The new direct channel will add to the existing settlement services offered by **Clearstream** and allow foreign investors **to have direct access to the Russian capital markets** through a single entity, i.e. Russia's CSD.

1 March

**The Regulatory Oversight Committee (ROC)** established by the Financial Stability Board (FSB) to implement the LEI project, **announced that the ROC Secretariat assigned the 4-digit prefix of a pre-Local Operating Unit (LOU) – 2534 – to NSD**. This means that NSD gained an official status of a pre-LOU and will be able to assign Legal Entity Identifiers to Russian legal entities and update information about the entities in the global identification system for legal entities.

4 April

**NSD entered into foreign nominee securities account agreements** with Central Securities Depository JSC (Kazakhstan), the National Depository of Ukraine, and the Republican Unitary Enterprise "Republican Central Securities Depository" (Belarus). Currently, NSD already holds accounts with the said foreign CSDs. **Two-way communication** channels used by the CSDs **allow them to more efficiently settle trades in securities**.

15 April

**NSD started to offer collateral management, clearing, and settlement services with respect to Bank of Russia's OTC repo transactions** with a securities basket. NSD's collateral management system will contribute to higher market liquidity and allow participants to reduce their costs connected with repo transactions with the Bank of Russia. The new technology **allows customers to choose appropriate collateral for repo transactions**, replace securities used in transactions, automatically replace collateral before corporate actions, and provide margin for the entire pool of transactions. The collateral management system was devised with reference to similar systems operated by international CSDs **and is unique to the Russian market**.

# DEVELOPMENT PROSPECTS

## NSD ACTINS AS

### A CENTRAL SECURITIES DEPOSITORY

NSD was granted CSD status in November 2012; however, efforts to establish a CSD in the Russian market will continue. In 2013, NSD and market participants will have to meet a number of key objectives to fully enable NSD to act as a CSD.

In particular, in 2013, it will be necessary to open CSD nominee accounts in shareholder registers. In order to successfully meet this objective, NSD will have to introduce and test new technologies designed for electronic communication with registrars and, by 6 November 2013, replace nominee's accounts in shareholder registers by CSD nominee accounts.

Prior to opening CSD nominee accounts, NSD will also have to assist Russian custodians in transferring assets of their customers from such custodians' nominee's accounts in shareholder registers to NSD's accounts.

## BANK OF RUSSIA'S REPO TRANSACTIONS

### WITH A SECURITIES BASKET AND COLLATERAL MANAGEMENT

A new service (processing of Bank of Russia's repo transactions with a securities basket and collateral management) arranged by NSD in cooperation with Bloomberg and the Bank of Russia is scheduled for launch early in 2013. The new service will provide Russian banks with a new channel to receive funds from the Bank of Russia and will add to the existing channels of making repo transactions (such as Moscow Exchange and Saint-Petersburg Currency Exchange). Bank of Russia's repo transactions are unique to the Russian market and make the new channel for raising funds more attractive compared to the other channels. Bank of Russia's repo transactions will be tri-party repo transactions with a securities basket. Requests will be submitted through Bloomberg terminals, and transactions will be entered into through the Bank of Russia's platform, while NSD will provide collateral management services (selection of securities as a collateral, collateral revaluation, making and enforcing margin calls), as well as clearing and settlement services (DVP-3 or DVP-1).

NSD has upgraded its software and drafted necessary agreements and internal regulations that would govern the provision of the new service. Market participants have shown keen interest in the service and are already making necessary preparations to sign up to it.

# DEVELOPMENT PROSPECTS

## REPOSITORY

The main task set before NSD's Repository for 2013 is to enable customers to register all transactions with derivatives provided for by the current laws.

To that end, the Repository intends, by autumn 2013, to start using a new message format, the one that is used for data registration. The new format is based on the globally recognized message standards designed by ISDA specifically for derivative transactions and is widely used in foreign securities markets. The use of the new format will allow the Repository to facilitate communication with foreign market participants, including leading foreign repositories.

In addition, NSD's Repository has plans to develop new services that will facilitate communication between the Repository and its customers and allow customers to receive information on the OTC derivatives market.

## CENTER OF CORPORATE INFORMATION

### PROJECT

In 2012, NSD achieved success in implementing the Center of Corporate Information (CCI) project. For 2013, NSD has a number of challenging tasks to be accomplished as part of the project. One of the main tasks is the implementation of a new IT platform designed to collect, integrate, and process information and provide it to customers in various formats. In the nearest future, NSD will significantly extend the list of information sources and take steps to more effectively communicate with such sources, especially with regulators. The plans are also to expand the geographical scope of information services by offering both information received from foreign partners (such as SIX Financial Information) and NSD's own information to foreign investors and news agencies. In addition, NSD intends to develop and launch the service for providing information on corporate actions directly to NSD's customers. The service that will be based on SWIFT message formats is anticipated and needed by NSD's customers.

Concurrently with the improvement of its information services, NSD is in discussions and negotiations with regulators regarding the assignment of single CCI status in the Russian market, which will allow NSD to more reliably and promptly receive information needed by NSD's customers.

COMPANY INFORMATION

COMPANY NAME

National Settlement Depository (NSD)

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 No. 3294 issued on 30 August 2002 by Interdistrict Inspectorate No. 39 of the Russian Ministry of Taxation for the city of Moscow.

Certificate of Registration of a Payment System Operator issued on 26 December 2012 by the Bank of Russia.

Licence No. 3294 to conduct banking transactions issued on 26 July 2012 by the Central Bank of the Russian Federation.

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

Licence No. 077–00004–000010 of a professional securities market participant to conduct clearing activities, issued on 20 December 2012 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 information encryption services, 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 Service for Financial Markets of Russia. The licence is perpetual.

BANKING DETAILS

Bank Name: Department No. 1 of the Moscow GTU, Bank of Russia

Correspondent Account: 30105810100000000505

BIC: 044583505

Principal State Registration

Number (OGRN): 1027739132563

TIN/KPP Codes: 7702165310 / 775001001

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