



**NATIONAL  
SETTLEMENT  
DEPOSITORY**  
MOSCOW EXCHANGE GROUP

# ANNUAL REPORT

of National Settlement Depository

2015





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## WELCOME ADDRESS

**BELLA ZLATKIS**

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

### ADDRESS BY THE CHAIRPERSON OF THE SUPERVISORY BOARD

**Dear Colleagues,**

Today, National Settlement Depository can truly be called one of the Russian financial market reformers. NSD is not just a diversified company acting as the central securities depository, a trade repository, collateral management agent, payment system operator and corporate actions services provider; rather, NSD is a financial institution setting the tone for the domestic market infrastructure development. The proof is the key project NSD implemented in 2015: the corporate actions reform that introduced new advanced standards and technologies to the Russian market. Those standards make it possible to establish a favorable environment for both Russian and foreign market participants and, obviously, to improve corporate governance.

Corporate governance improvement is also an important objective for the CSD, which is why the company's Supervisory Board pays great attention to the introduction of new corporate governance practices and expertise. To meet this objective, in 2015, as in the year before, NSD invited new foreign experts to join the Supervisory Board. This move enabled us to expand our vision of the CSD development strategy and helps NSD integrate into the global infrastructure.

In 2015, in addition to dealing with corporate governance matters, the Supervisory Board passed a number of resolutions related to the Company's pricing policy, budget utilization and risk management improvement, and also monitored the progress of NSD's priority projects and current performance.

Using the methodology designed by the Bank of Russia, the Supervisory Board conducted a self-assessment in 2015 that helped identify key areas for the Supervisory Board to develop and improve in 2016. The key principle here is that we must meet the interests of both clients and shareholders and make transparent and balanced

decisions reflecting the needs of market participants in all categories. Today's professional market participants expect NSD to improve its settlement services, develop information technologies (the Supervisory Board has approved an IT development strategy) and collateral management services, design an automated system for corporate actions processing, establish a corporate actions and corporate information center and introduce a centralized system for UIT units issuance and redemption. NSD's management is putting forth its best efforts to successfully implement all of these projects.

I would like to extend my gratitude to NSD's Supervisory Board members, senior managers and employees, and to NSD's clients and business partners for their well-coordinated and professional work.

A handwritten signature in blue ink, appearing to read 'B. Zlatkis'.



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

## ADDRESS BY THE CHAIRMAN OF THE EXECUTIVE BOARD

**Dear Colleagues,**

The central securities depository in Russia was established from scratch. We, of course, capitalized and continue capitalizing on the experience of other countries, but we primarily focused on the characteristics of the domestic market. Over the three years of the CSD's history, we managed to accomplish a great deal – even more than we expected. Although we have passed through a formative stage in our development, it is too early to say that the process of defining standards and operating principles for modernized settlement infrastructure has reached completion. Now we face a new challenge – a transition towards making further improvements. This is a great responsibility for us: it is a responsibility towards our clients, for whose benefit we ensure that transactions are processed reliably and without interruption, and for whom we offer a range of advanced and convenient services while guaranteeing a fair pricing policy. Moreover, our clients are also our shareholders, and they expect a well-balanced approach to risk management, stable operational performance and a commitment to the best practices of corporate governance. These are the key principles that CSD applies to its business.

Every year, we design and launch new products and implement new projects, but our key principles remain the same regardless of the current agenda.

We improve our reliability assurance and risk management approaches on a continuous basis in line with international standards and expertise. In 2015, Thomas Murray maintained NSD's rating at AA-, which translates as 'very low overall risk.' At the same time, NSD received a higher score for Governance & Transparency Risk. Last year, NSD was audited for the first time under the ISAE 3402 (Type II) standard that allows us to confirm not only that the controls were suitably designed to achieve specified control objectives, but also that the controls were sufficiently effective. In the past, NSD underwent the ISAE 3402 (Type I) standard audit. In addition, NSD was independently assessed for observance of the CPMI-IOSCO Principles for Financial Market Infrastructures and was found to be broadly observant overall of those Principles.

We improve the range of services we offer to our clients, not only by launching new services, but also by improving existing ones. It is very important for us to ensure that our initiatives are welcomed by our clients. In particular, we continuously improve our settlement services. In 2015, electronic matching became mandatory for all OTC transactions and clients gained the ability to make back-to-back settlements. Also, collateral management services gained added momentum: in addition to the Bank of Russia's OTC repo transactions, a new product was launched: the Federal Treasury's repo transactions. After its launch in Q2 2015, the volume of such transactions reached RUB 4.6 trillion by the end of Q3, and RUB 9 trillion by the end of the year. Despite the substantial workload increase, NSD's Trade Repository ensured the most convenient transition to acceptance, with mandatory reports for all types of derivative transactions going into effect on 1 October 2015. The corporate actions reform driven by NSD has

**Being a high-technology company is not just the imperative of our times – it is already the norm. This is why we pay great attention to the development of IT that is critical to all areas of business**

entered a new, more active phase. In addition, in 2015, we enhanced the e-proxy voting technology that now operates in accordance with ISO standards.

Nowadays, information technologies play an increasingly greater role in the world of finance. The current NSD IT Strategy for the period until 2016 is based on principles aimed at ensuring greater fail-safety and performance and technology scalability. It is not just the imperative of our times, but a standard that companies must make use of advanced technologies. This is why we pay great attention to the development of IT that is critical to all areas of our business. As evidence, NSD's collateral management system has achieved a performance improvement, with the average execution time for clearing sessions reduced from 300 seconds to as low as 4 seconds.

In 2015, we finally developed a new pricing model. All changes to our tariffs were discussed and elaborated on at Customer and Advisory Committee meetings with the involvement of both Russian and foreign securities market participants. The pricing reform was the result of more than two years of our joint efforts with CSD service users.

How our clients evaluate our work is very important for us, as this is one of the key factors of the company's business success. In 2015, NSD managed to achieve an 89 percent customer satisfaction index, the highest of the last five years.

In 2016, we will sum up the results of the CSD Development Strategy for 2012–2015. At the same time, we need to devise a development strategy for the period ending in 2020 as part of the Moscow Exchange Group strategy. Our current priorities include the implementation of projects that are part of corporate actions reform in accordance with the new legislation that will go into effect on 1 July 2016; the development of

tri-party services and, in particular, a project that provides services for on-exchange repo transactions in clearing participation certificates; and the introduction and promotion of information services and products, mainly NSD's Valuation Center.

The period of turbulence is not yet behind us, and new challenges will arise during the new financial year. However, I believe that we will face such challenges properly and be just as successful as last year – because our current performance will, to a great extent, shape the market development for many years to come.

*Antonov I. B.*



NSD achieved an

**89%**

customer satisfaction  
index in 2015



**IRINA  
ANTONOVA,**  
HR Director



**SERGEY  
PUTYATINSKIY,**  
Member of the  
Executive Board,  
IT Director



**IRINA  
VEREMEENKO,**  
Member of the Executive  
Board, Chief Accountant,  
Director of Accounting  
and Reporting  
Department



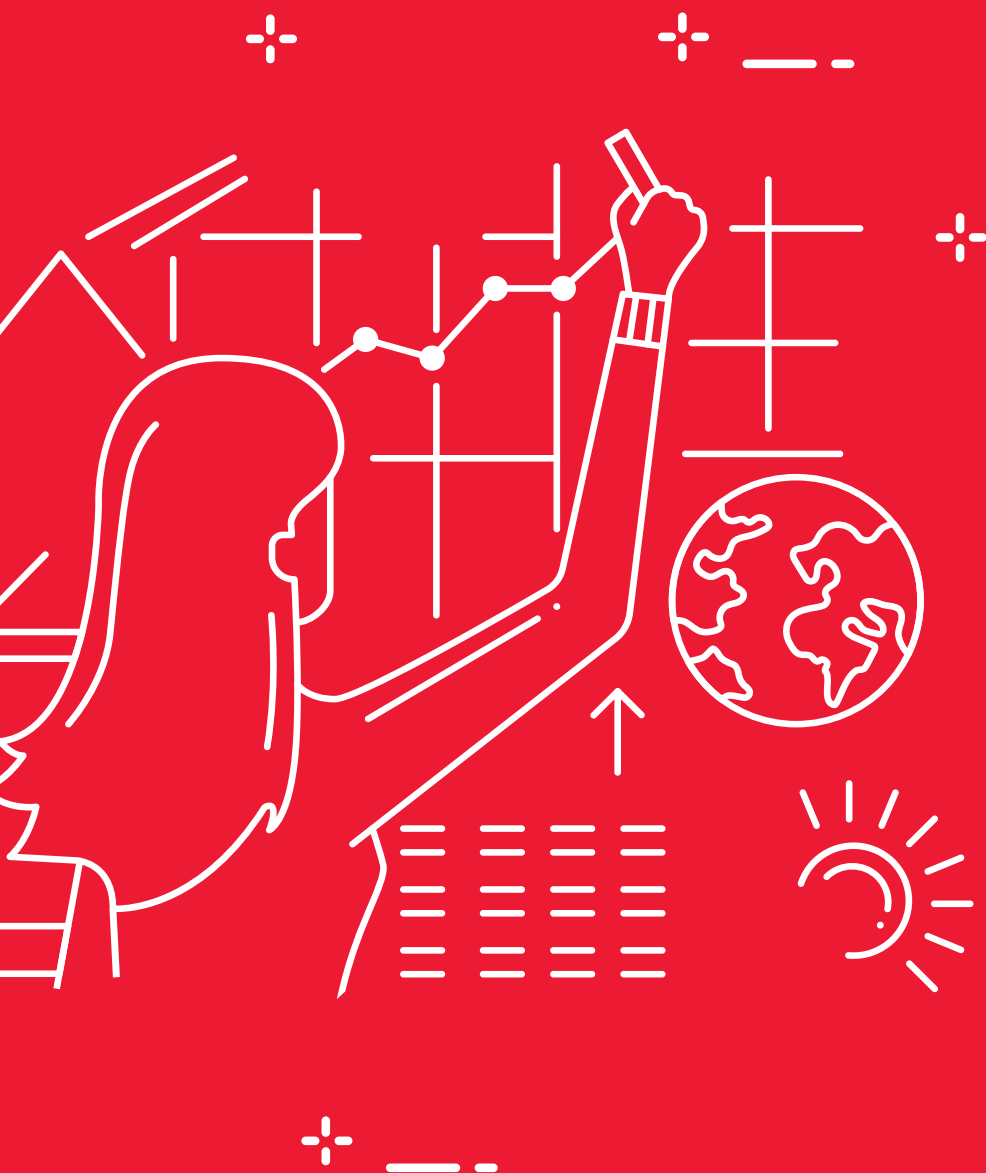
**MARIA  
IVANOVA,**  
Vice President, Director  
for Development and  
Client Relations

**EDDIE  
ASTANIN,**  
Chairman of the  
Executive Board

**MARIA  
KRASNOVA,**  
Deputy Chairman  
of the Executive  
Board

**ANDREY  
SHLYAPPO,**  
Deputy Chairman of the  
Executive Board

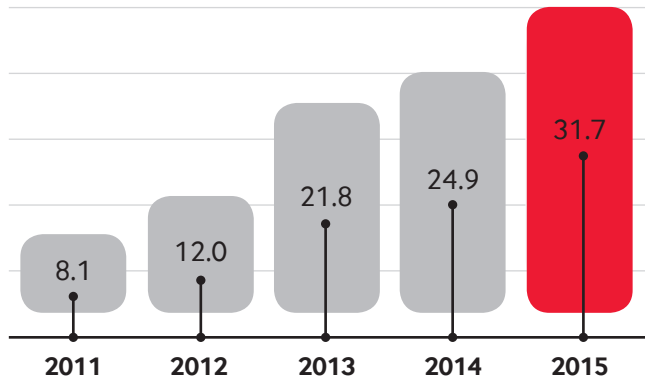




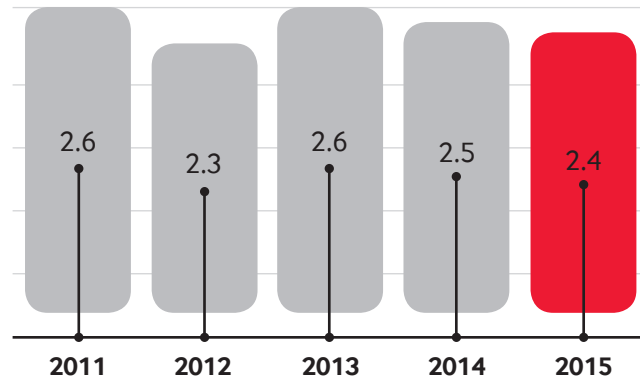
## NSD IN 2015



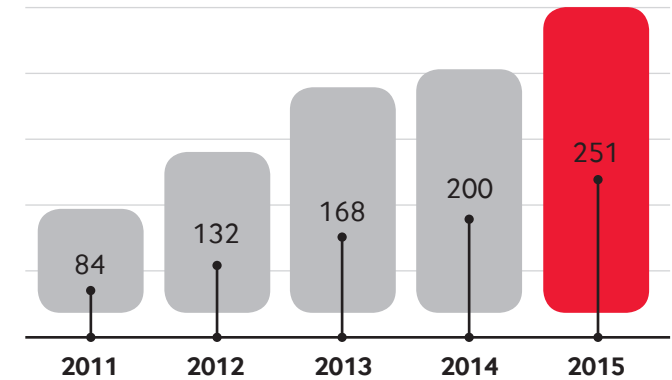
Value of securities held in clients' securities accounts as at the end of the reporting period (RUB trillion)



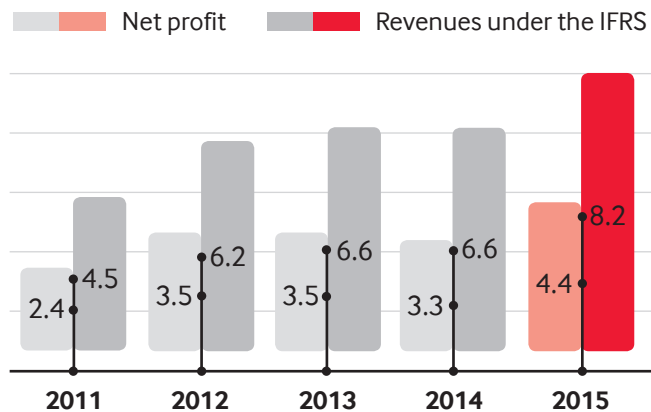
Total number of depository transactions for the 12M reporting period, calculated in accordance with NSD's methodology (in mln)



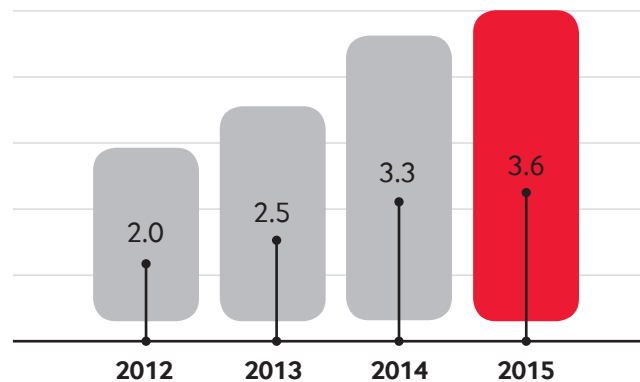
Total value of depository transactions for the 12M reporting period, calculated in accordance with NSD's methodology (RUB trillion)



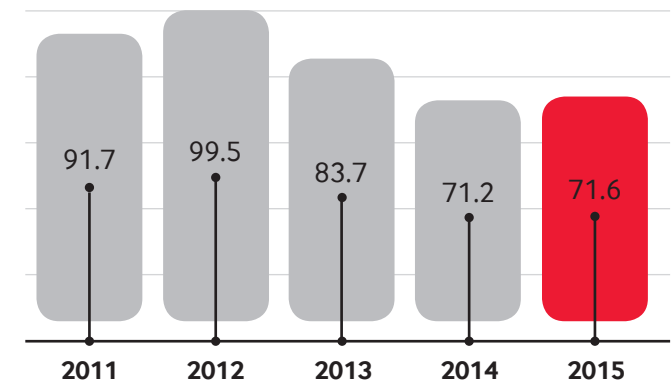
Total net profit and revenues under the IFRS for the 12M reporting period (RUB billion)



Total fee revenues under the IFRS for the 12M reporting period (RUB billion)



CTOI (management accounts), %



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NSD ANNUAL REPORT, 2015



## HIGHLIGHTS OF 2015

When it was granted CSD status in 2012, NSD adopted a three-year development strategy that was based on the development of five strategic areas of business: the CSD, the Trade Repository, the Collateral Management System, the Payment System, and the Corporate Actions and Corporate Information Center. As of the end of 2015, thanks to the successful implementation of the strategy, all of the five areas of business were up and running. The key result of the strategy was the diversification of the company's business, which is evidenced by the figures in 2015, and figures always convey more than words! When devising its strategy, NSD set the goal of achieving RUB 30 trillion in the value of assets under custody. By the end of 2015, this target was exceeded and reached RUB 31.7 trillion.

One of the largest projects implemented by NSD in 2015 was the corporate actions reform in the Russian market. In July 2015, the President of the Russian Federation signed Federal Law No. 210-FZ that amended certain provisions of such federal laws as "On Joint-Stock Companies," "On the Securities Market," and "On the Central Securities Depository," thereby laying the legal foundation for the reform. The new legislation is the result of many years of effort by a large number of financial market institutions, and it contains key provisions aimed at reforming corporate actions in Russia, including provisions that change the approaches to the drawing up of lists of securities holders and provide for the centralized processing of corporate actions through market infrastructure institutions, e-voting and e-proxy voting at general meetings of shareholders, and the establishment of a corporate information center under the auspices of the CSD.

The amendments will make it possible to increase the level of protection for domestic securities holders and to reduce costs for participating in corporate actions. Previously, interaction between an issuer and shareholders took place without the involvement of securities depositories and registrars, but now, the new legislation requires that all corporate actions be processed in a centralized manner, through securities depositories and registrars. Professional

market participants and investors will be provided with a 'golden source' of information on corporate actions, to be established at NSD, and priority will be given to the information provided by that 'golden source.'

On 1 April 2015, e-proxy voting – an innovative electronic voting solution that allows shareholders to vote through a securities depository – was launched in accordance with ISO standards. For many years, corporate actions in the Russian market were very complicated and often non-transparent with regard to relations between an issuer and both Russian and foreign shareholders. Now, electronic formats and common standards provide all shareholders with equal possibilities for voting and assure them that their votes will be accepted by the issuer. Another important aspect is that the use of e-technologies instead of hard-copy documents allow all process participants to reduce their costs.

The use of e-technologies and ISO 20022 format for the purpose of holding general meetings of shareholders allows issuers to improve the quality of corporate governance and makes it easier for securities holders to exercise their

**The key result of the 3-year development strategy was the diversification of the company's business, which is evidenced by the figures in 2015. When devising its strategy, NSD set the goal of achieving RUB 30 trillion in the value of assets under custody. By the end of 2015, this target was exceeded and reached RUB 31.7 trillion**

rights, which, in the long run, could make Russian assets more appealing. In 2015, many Russian issuers – including such major companies as Sberbank, Gazprom, Moscow Integrated Power Company (MOEK), and Mosenergo – enabled their respective shareholders to participate in general meetings through e-proxy voting.

Another milestone in 2015 concerns the Trade Repository. In accordance with the law that came into force

**Tri-party collateral management services are a novelty for the Russian market. Despite its young age, the Collateral Management System designed by NSD has already gained recognition from market participants**

on 1 October 2015, market participants are required to report to the Trade Repository all types of derivative transactions made under master agreements. Prior to 1 October, mandatory reporting was required for OTC repo and currency swap transactions only. As expected, the new reporting requirements have resulted in a significant workload increase. During the reporting year, the Trade Repository ran a number of stress tests and held a number of working group meetings with clients as part of the preparatory work for the mandatory reporting launch. In addition, market participants themselves reported increasingly more transactions on a voluntary basis. Thanks to this, both the Trade Repository and market participants approached the launch date fully prepared, which later allowed for a smooth transition to expanded reporting, without any technical failures or criticism from clients or the regulator.

Tri-party collateral management services are a novelty for the Russian market. Despite its young age, the Collateral Management System designed by NSD has already gained recognition from market participants. Following its launch some years ago of the Collateral Management System for the Bank of Russia's repo transactions with a securities basket, NSD introduced collateral management in 2015 for repo transactions with the Russian Federal Treasury. Market participants gained the ability to make tri-party repo transactions using all the benefits of NSD's collateral management services, including the optimal selection of securities

as collateral, collateral replacement, margin calculation, and daily market revaluation of the collateral. The new service has also been duly appreciated by NSD's clients. During one quarter alone, the total value of repo transactions with the Russian Federal Treasury reached RUB 4.6 trillion, and almost doubled by the end of 2015 to RUB 9 trillion.

Another key area of growth is the Payment System and settlement services. As part of the efforts in this area, NSD launched a conversion payment service that integrates two transactions (the purchase and sale of a foreign currency and a cash transfer) and allows clients to reduce the number of instructions and payment documents to be submitted to NSD. In addition, an opportunity was offered to clients to settle their trades on a 'delivery versus payment' basis in 'central bank money,' i.e. using counterparties' correspondent accounts held with the Bank of Russia. Such a settlements model is customary in global financial markets. Particular attention is paid by NSD to the improvement of settlement discipline. Thus, in autumn 2015, NSD introduced a mandatory automated process of matching (electronic matching) of all potentially matching clearing or settlement instructions of counterparties with respect to OTC securities transactions. Electronic matching makes it possible to more quickly identify potential differences between counterparties' matching instructions, which significantly reduces the risk of delays in executing transactions. What's more, in 2015, NSD's clients started more

actively using the Hold & Release service that allows them to first submit instructions with the preliminary status "For matching only" and then change their status to "For execution."

Also, 2015 was a rather intensive year for information services development. First of all, NSD, in partnership with the Interfax Group, launched RU DATA, a reference database on Russian securities and issuers. For the first time in the Russian market, RU DATA brought together all available information on Russian issuers and their financial instruments. Information provided by RU DATA has official status, is updated in real time and is verified. Important developments in the field of information services also include the Valuation Center, the system of the fair valuation of financial instruments, with Thomson Reuters, Cbonds, and Interfax joining the list of its distribution channels. The overall successful development of information services in 2015 allowed NSD to substantially expand its client base for all of the products and services it offers. The number of information service users visiting NSD's web site doubled from 1,150 to 2,250 visitors per month.

The stability of any business is measured not only by the number of services it offers or the volume of its capital, but also by its high operational reliability indicators and risk management requirements. For a settlement infrastructure provider, these objectives are crucial for operation and continued development; therefore, NSD applies best practices in risk management and global expertise for independent assessments. Thomas Murray, the specialist custody rating firm, maintained NSD's rating at AA-, which translates as 'Very Low Overall Risk,' with a 'Stable' outlook. At the same time, the rating for Governance & Transparency Risk was upgraded from A+ to AA-. NSD was subjected to an operational audit in accordance with the ISAE 3402 standard. In 2015, NSD was audited for the first time under the ISAE 3402 (Type II) standard that has a greater scope: in addition to the analysis of whether the controls were suitably designed to achieve specified control objectives, the auditor analyzed whether the controls were operating with sufficient effectiveness.

The Russian CSD's business is not limited to the domestic market. In addition to Russian settlement infrastructure development, NSD seeks to become integrated into the global infrastructure so as to create new opportunities for the Russian securities market. One of the key achievements in this area was the signing of a Memorandum of Understanding (MoU) with CCDC, China's central securities depository that provides debt securities services. The MoU paved the way for cooperation between the two market infrastructure institutions, which is ultimately aimed at establishing a direct and convenient link for investors between the Russian and Chinese markets. The next logical step after the signing of the MoU was a visit to Beijing and Shanghai by a Russian delegation comprising representatives of NSD, the Bank of Russia, Moscow Exchange and major Russian issuers for negotiations with Chinese regulator and market infrastructure institutions. This opened the door to the implementation of a unique project aimed at providing access to the Chinese market.

In 2015, NSD also signed memorandums of cooperation for information sharing and regular communication with the central securities depositories of Serbia and Greece. Cooperation within the Association of Eurasian Central Securities Depositories (AECSD) is a strategic area of NSD's

international activities. AECSD members hold regular meetings, arrange dedicated workshops that enable its participants to raise their awareness of the settlement infrastructure and its development, and make efforts to harmonize their national laws. It is worth noting that in 2015 the central securities depositories of India (NSDL and CSDL) and Turkey joined the AECSD, while Clearstream Banking, one of the global market leaders, and INFINITUM Asset Services, Russia, were granted observer status at the AECSD.

NSD is a customer-oriented company, which is evidenced by the Customer Satisfaction Index calculated annually since 2011. We are happy to say that in 2015 the Index reached 89%, a 1.2% increase over 2014.

**Thomas Murray, the specialist custody rating firm, maintained NSD's rating at AA-, which translates as 'Very Low Overall Risk,' with a 'Stable' outlook**



Tri-party services  
processed

**2 trillion  
rubles**

in liabilities



## PERFORMANCE IN THE KEY AREAS OF BUSINESS

## NSD AS THE CENTRAL SECURITIES DEPOSITORY

NSD is the central securities depository (CSD) in the Russian securities market and provides securities services as the CSD in accordance with Federal Law No. 414-FZ "On the Central Securities Depository" dated 7 December 2011, and also acts as a nominee holder of other Russian and foreign debt and equity securities.

The value of assets under custody rose throughout 2015, reaching RUB 31.7 trillion (+25% against the previous year). NSD also serviced a greater number of securities issues, up from 7,800 in 2014 to 9,200 in 2015 (+18%). It should be specifically mentioned here that the number of foreign securities issues increased by 64%: from 1,700 in 2014 to 2,800 in 2015.

NSD is currently designing a centralized system for UIT units issuance and redemption. The project aims to ensure that conditions and infrastructure are in place for the transition to a new model of the collective investment market, which implies an open sales architecture for UIT unit sales in the primary market, standardization of data interchange formats in the collective investment market and greater transparency and harmonization of disclosure standards.

In 2015, NSD conducted preparatory work before the launch of the first stage of the project scheduled for 2016; in particular, we worked on the development of formats, flow charts and functional requirements for IT systems. At this stage, it will become possible for brokers to use NSD as a 'one stop shop' to purchase, redeem, or exchange for their respective customers UIT units of any asset management company that has acceded to NSD's EDI System, thus using a two-level nominee scheme.

## Cooperation with Issuers

In 2015, there were IPOs of four stock issues on the Moscow Exchange, and NSD accepted 11 certificates of Federal Loan Bonds (OFZ) with a total nominal value of RUB 1.41 trillion for custody.

The year 2015 saw the offering of 401 issues of corporate and sub-federal bonds with a total nominal value of RUB 2.66 trillion. As many as 54 bond issuers entered the market in 2015 for the first time and four USD-denominated bond issues were placed with a total nominal value of USD 6.55 billion.

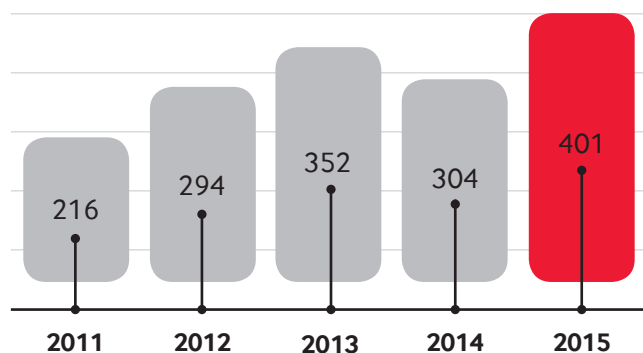
A total of 40 general meetings of bondholders of 17 issuers took place during this reporting year.

## NSD as a Withholding Agent

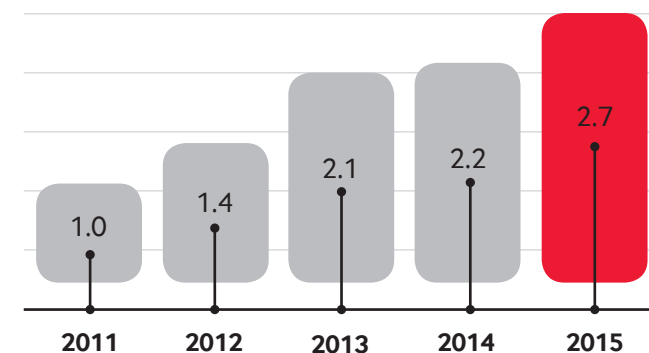
In accordance with the Russian Tax Code, since 2014, NSD has been acting as a withholding agent when paying out income on Russian equities and bonds.

In the cases provided for by law, NSD calculates, withholds and pays to the budget of the Russian Federation corporate or personal income tax in

### Total number of corporate and sub-federal bond issues accepted for custody for the 12M reporting period



### Total value of corporate and sub-federal bond issues accepted for custody for the 12M reporting period (in RUB trillion)





NSD services  
**9,200**  
 securities emissions

accordance with the provisions of the Russian Tax Code and double taxation treaties of the Russian Federation. As a securities depository, NSD acts as a withholding agent when paying out income on securities to foreign organizations or foreign nominee holders, as well as when paying out dividend income to Russian organizations on shares held in owner securities accounts with NSD.

### **CORPORATE ACTIONS AND CORPORATE INFORMATION CENTER**

For NSD, 2015 was a year of improvement and development of services and technologies within the framework of the corporate actions reform that was launched in 2014. The changes implemented in 2015 affected all of NSD's business processes connected with corporate actions, including:

- Collection of information on corporate actions;
- Provision of information to market participants;
- Collection and processing of clients' instructions for participation in corporate actions;
- Arrangement of e-proxy voting;
- Provision of related services; and
- Development of communication channels for the purposes of corporate actions.

### **Collection of information on corporate actions**

In 2015, a number of crucial legislative steps were taken to establish, under the auspices of NSD, a single 'golden source' in Russia of reliable information on corporate actions. According to the amendments made to Federal Law No. 39-FZ "On the Securities Market," that will go into effect on 1 July 2016, issuers will be required to provide NSD with information on their corporate actions in a structured format.

Such an approach will make it possible to significantly facilitate and automate the collection and distribution of reference data on all securities recorded by NSD, and to substantially reduce the risk of misrepresentation

of information being used by all market participants. A Corporate Information Center will be established based on NSD's database that will provide Russian market participants with information on corporate actions. Such information will be provided in a structured format through the SWIFT system and the Web-client (NSDirect), and also posted on NSD's web site.

The use of structured messages developed in accordance with the ISO 20022 and ISO 15022 standards for the purpose of providing information on corporate actions would allow market participants to use the straight-through processing method. Any market participant would be able to automatically process structured information without the risk of its misrepresentation or loss.

In 2015, the first solution was devised for general meetings of shareholders, making it possible to provide clients, in accordance with the ISO 20022 and ISO 15022 standards, with information prepared by an issuer (or registrar) under the ISO 20022 standard.

### **Provision of information to market participants**

In 2015, NSD continued its efforts to implement services that make it possible to provide market participants with information on corporate actions under the ISO 20022 and ISO 15022 standards.

During the reporting year, as part of a project aimed at the establishment of an automated corporate actions processing system, a new service was implemented which allows to send clients new types of structured messages on corporate actions connected with:

- the convocation of meetings of holders of Russian or foreign bonds (BMET);
- the payment of dividends on foreign securities (DVSE, DVOP, DRIP, LIQU, CAPD);
- TEFRA D certification for non-U.S. residents (CERT);
- the placement of intermediate securities by foreign issuers (RHD); and
- the voluntary early redemption of securities by foreign issuers (BPUT).



To inform clients that the deadline is approaching for submission of a corporate action instruction, NSD implemented a solution to send reminders (RMDR) for corporate actions involving foreign securities.

The improvement of the information provision process also positively affected communications posted on NSD's web site in the news feed: the structure for presenting such communications and the data set were revised. Communications posted in the news feed in both Russian and English are in demand not only by Russian market participants, but also by foreign users.

### **Collection and processing of clients' instructions for participation in corporate actions**

In 2015, NSD started working on a project aimed at automating the receipt and processing of clients' instructions for participation in corporate actions for Russian or foreign securities.

The implementation of the solution for foreign securities-related corporate actions will allow NSD to receive clients' instructions in ISO 20022 or ISO 15022 formats for participation in voluntary corporate actions, forward such instructions to higher-level depositories, and inform clients of the status of their instructions.

In 2015, a project was launched to automate and improve the processing of voluntary corporate actions for Russian securities, such as:

- the acquisition of securities by the issuing company (BIDS);

- the voluntary/mandatory tender offer to purchase shares (TEND); and

- the preemptive right to purchase securities (PRIO).

The new approach will allow securities holders whose rights in and to securities are recorded by a depository to submit their instructions for participation in the above corporate actions through the depository. In effect from 1 July 2016, such a method of participation in the said corporate actions will be the only one allowed to securities holders. The new method will eliminate both the paperwork currently prevailing in the Russian market and the need for direct communication between securities holders and registrars/issuers. Another benefit of the new method is that proceeds from the sale of securities will be transferred to securities holders through their depositories, and NSD will be responsible for controlling whether available cash funds are sufficient to pay for the securities to be acquired.

In 2015, NSD began implementing a number of projects aimed at automating the processing of voluntary corporate actions using international standards, including ISO 20022 and ISO 15022. Late in 2015, NSD in cooperation with market participants successfully tested the new service and the electronic data interchange process that supports the process of acquisition of securities by the issuing company (BIDS).

The introduction of the ISO 20022 and ISO 15022 standards brings the Russian financial market infrastructure closer to global standards, allows it to eliminate paperwork in corporate actions processing, and

**In 2015, a project was launched to automate and improve the processing of voluntary corporate actions for Russian securities. The new approach will allow securities holders whose rights in and to securities are recorded by a depository to submit their instructions for participation in the above corporate actions through the depository**

ensures effective and secured data interchange both with issuers/registrars for Russian securities and with foreign depositories and ICSDs, while also ensuring a low level of operational costs and operational risks.

### Arrangement of e-proxy voting

In 2015, NSD developed the e-proxy voting service by which its clients can receive the necessary information on general meetings of shareholders and, at the request of their respective customers, to submit a voting instruction, using the ISO 20022 and ISO 15022 formats.

Such a possibility was introduced by law in 2014, when the relevant amendments to Federal Law No. 39-FZ "On the Securities Market" took effect; however, before the introduction by NSD of ISO formats, the solution did not meet the best global practices and required manual issuance and processing of voting documents, which prevented the solution from being actively used.

In April 2015, NSD introduced new formats and launched a new service for providing information on general meetings of shareholders using ISO 20022 and ISO 15022 formats adapted to the Russian practices and laws. Not only do voting ballots and documents containing information on securities holders and the procedure for voting on agenda, but also notifications of meeting convocations and voting results now have a structured format. In addition, a solution has been

**The introduction of the ISO 20022 and ISO 15022 standards brings the Russian financial market infrastructure much closer to global standards**

implemented that makes it possible to receive and gain access to materials prepared for a general meeting.

Over the period of 9 months following the launch of the e-proxy voting service, shareholders at

283 meetings were able to use the service to vote. The issuers who offered such an opportunity included Gazprom, Sberbank, Moscow Integrated Power Company (MOEK), and Mosenergo. NSD's clients submitted 357 instructions in ISO 20022 or ISO 15022 formats.

### Development of communication channels for the purposes of corporate actions

In 2015, NSD introduced a new channel for communicating with market participants in the course of corporate actions: NSDirect Web-client. NSDirect is part of NSD's EDI System that provides electronic communication for issuers, registrars, and depositories.

NSDirect enables market participants to issue information on corporate actions, get access to such information, and participate in corporate actions.

In 2015, the Web-client offered its users full functional capacity for communication between NSD and issuers, registrars, and depositories in the course of corporate actions. NSDirect plans to offer a number of new services supporting all procedures connected with participation in corporate actions, both for Russian and foreign securities.

### Priority Projects

NSD is currently taking steps to develop and implement new services that, starting in July 2016, will allow securities holders to exercise the rights attached to their securities through a securities depository, including:

- the preemptive right to purchase securities;
- the right to demand buyback, acquisition, or redemption of securities; and
- the right to participate in general meetings of securities holders, to make proposals as to meeting agendas, and to vote.

In 2016, NSD plans to run trials of the e-voting service that would allow shareholders to vote directly and online.

The Corporate Information Center will also begin operations in 2016. NSD is now working on a number of services aimed at obtaining information on corporate actions and providing such information to clients, acting as a single 'golden source' of information.

### INFORMATION SERVICES

The development of information services is one of the key areas of NSD's growth. By steadily implementing its development strategy, NSD substantially expanded its client base in 2015 for all of the products and services it offers. As the CSD and Corporate Information Center, NSD aggregates a unique variety of information on both Russian and foreign financial instruments and provides market participants with a wide range of basic services at no charge. The number of information service users visiting NSD's web site each month doubled from 1,150 to 2,250 visitors.

In 2015, a milestone was reached in the development of the Russian financial data services market with the launch of RU DATA, a reference database on Russian securities and issuers that NSD offers in cooperation with the Interfax Group. The RU DATA service brings together all available information on Russian issuers and their financial instruments.

NSD devoted particular attention to providing market participants with greater possibilities for customizing a data set depending on their portfolios and objectives. Thus, the product range of the module database was supplemented with an option to select 11 dedicated information blocks for downloading.

In addition to information on securities, issuers, and corporate actions, NSD is working on Valuation Center RU PRICE to improve the method of providing a fair valuation of financial instruments. To provide its clients with an opportunity to choose a preferred information distribution channel, NSD built an information distribution network in 2015 that comprises both Russian and foreign news agencies. Now, the Valuation Center's data is available through Thomson Reuters, Cbonds, and Interfax.

In 2016, NSD will merge all of its public disclosure systems, basic information support systems, and commercial information services into a single web site: [www.nsddata.ru](http://www.nsddata.ru). The new site will provide market participants with very flexible and convenient options for data searching, handling, customization, export, and import, as well as simplified subscription and billing solutions.

The unified platform of the Reference United PRICE (RU PRICE) Valuation Center will provide new impetus for development. In 2016, NSD will file for the official accreditation of the Valuation Center by the Bank of Russia, continue developing and implementing fair valuation methodologies for various categories of financial instruments, and expand the international distribution network for RU PRICE data.

### COLLATERAL MANAGEMENT SYSTEM

The Collateral Management System (CMS) is a package of services aimed at supporting securities transactions that enables market participants to use the CSD's infrastructure to reduce their operational burden and to manage risk efficiently. The role of collateral is to reduce potential losses that may be incurred by money market players if the counterparty to a transaction fails to comply with its terms and conditions.

Today, NSD's Collateral Management System is widely used in repo transactions with a securities basket, as made by so called 'global creditors,' the Bank of Russia and the Russian Federal Treasury. More than 200 banks operating in Russia, including all of the major banks, are connected to the CMS.

Repo transactions with the 'global creditors' are a highly sought after and rapidly growing product, and in May 2015 the CMS received a new impetus for development. In addition to the Bank of Russia's repo transactions with a securities basket, a new product was launched: the Russian Federal Treasury's repo transactions with an OFZ basket. It should be noted that already by October 2015, the value



The number of information service users visiting NSD's web site

**doubled**  
in 2015

of the Federal Treasury's repo transactions exceeded the value of the Bank of Russia's repo transactions (RUB 2.53 trillion vs. RUB 1.61 trillion). At the end of the reporting year, a new financial instrument was added to the range of NSD's products: the Russian Federal Treasury's repo transactions with an OFZ basket with a maturity of more than one day.

There will be further development of repo transactions with these 'global creditors' as part of efforts aimed at building infrastructure for processing the Bank of Russia's repo transactions with a basket of USD-denominated securities and at launching the Bank of Russia's on-exchange repo transactions with a securities basket.

In 2015, NSD took part in the Moscow Exchange Group's large-scale project for the introduction of a 'homogeneous universal collateral' — a Clearing Participation Certificate (CPC). A CPC is a bearer certificated security subject to mandatory centralized safekeeping and relating to a particular asset pool. Market participants retain their title to assets placed into a pool, and Bank "National Clearing Center» (NCC) issues a CPC to each such participant in

exchange for his assets so pooled, subject to their market value.

For this new product, NSD provides recordkeeping and safekeeping services with respect to global certificates of CPCs and underlying assets recorded in sub-accounts intended for holding pooled securities, as well as collateral management services. The CMS is used to initially select assets to be pooled for the issuance of a CPC and to collect margins. In the future, if approved by the regulator, it is planned that CPCs will be selected to build a securities basket. If necessary, users may replace their assets in the pool. The product additionally provides for automatic processing of most corporate actions.

NSD builds an open architecture in collateral management not only for transactions with the 'global creditors': NSD also launched a baseline version of the CMS platform in 2015 for inter-dealer transactions. In December 2015, it settled a number of pilot transactions with a securities basket.

For greater reliability, collateral management services are improved on a continuous basis. In 2015, clearing session algorithms were improved using advanced mathematical methods, which helped increase the reliability and effectiveness of settlements during clearing sessions, while also maximizing the number of trades settled per session.

In December 2015, to make clients' settlements more convenient, NSD introduced one more clearing session exclusively for settling trading bank accounts held with NSD, with the need to submit a standard set of reports.

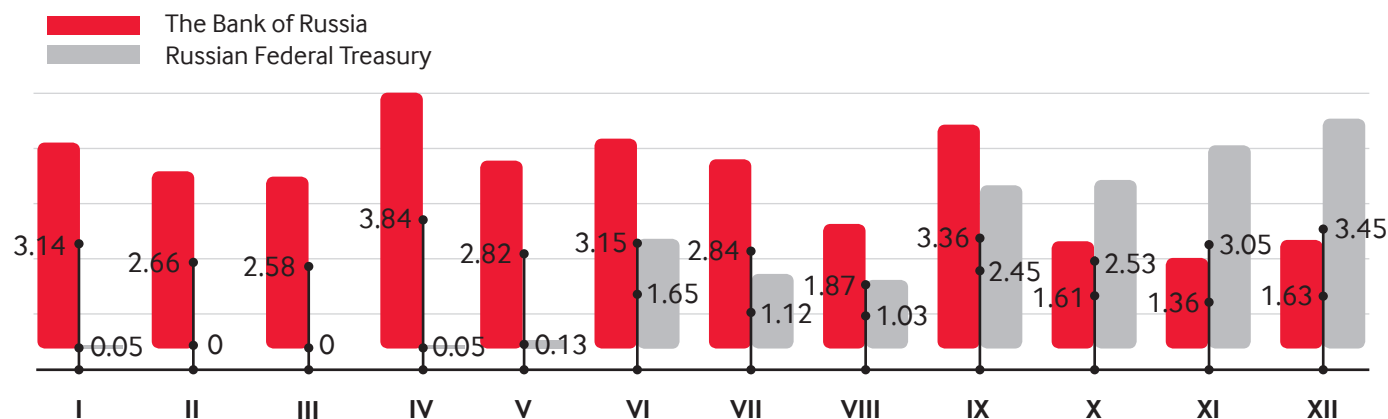
Building on the foundations laid in 2015, plans for 2016 call for the further development and launch of collateral management services.

The collateral management services will be integrated with NSD's Trade Repository.

## SETTLEMENTS AND CLEARING

In 2015, NSD continued its efforts to improve the 'delivery versus payment' (DVP) settlement service.

Monthly value of transactions in 2015 (in RUB trillion)



Thanks to the March 2015 launch of DVP settlements via the Real Time Gross Settlement System (BESP), clients were offered an opportunity to make settlements directly, using correspondent accounts with the Bank of Russia. The new service that offers both reliability of DVP settlements and flexibility in cash management gives NSD's clients greater possibilities for settling their trades.

In response to market participants' need for settlements in more currencies, in December 2015, NSD introduced DVP settlements in HKD, CHF, and GBP through trading bank accounts held with NSD. As a result, NSD now offers DVP cash settlements in RUB, USD, EUR, RMB, HKD, CHF, and GBP. DVP settlements in HKD, CHF, and GBP are available during all NSD's clearing sessions.

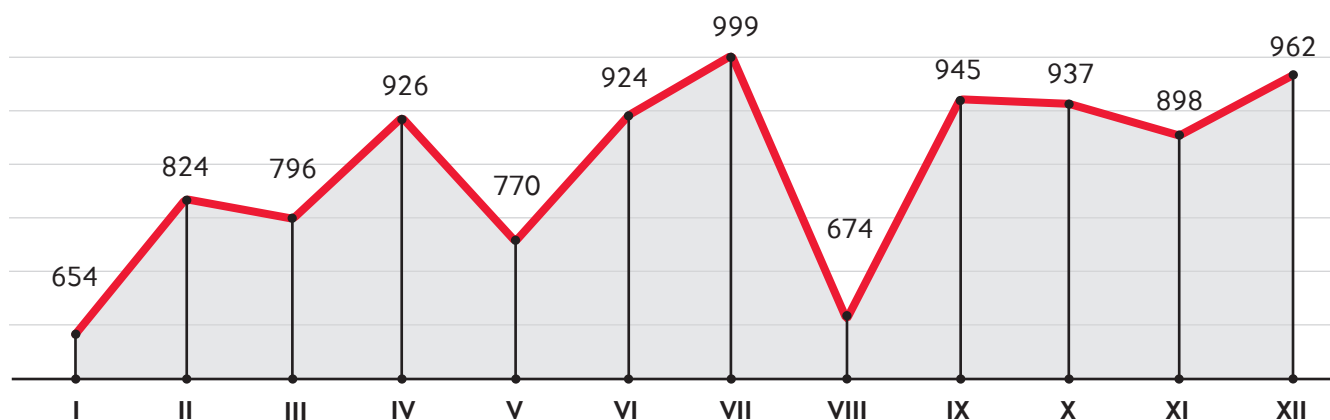
Also, in December 2015, NSD introduced an additional clearing session at 2 pm for DVP transactions through trading bank accounts held with NSD. Thus, NSD has been offering nine clearing sessions since 2015. Clearing sessions at 12:00 (midday), 2:00 pm, 4:00 pm, and 7:40 pm are for DVP

transactions through trading bank accounts held with NSD, while clearing sessions at 10:00 am, 1:00 pm, 3:00 pm, 6:00 pm, and 6:45 pm are for DVP transactions through trading bank accounts held with both NSD and foreign banks.

In 2015, NSD started a project for the implementation of instruction prioritization and related transaction services at NSD. The instruction prioritization service will allow clients to manage the order of execution of their instructions for securities delivery on a 'free of payment' (FOP) or 'delivery versus payment' (DVP) basis, by prioritizing instructions with the possibility of subsequently changing the priority assigned to any instruction. The related transactions service will allow clients to segregate assets by creating a pool of related instructions for delivery and receipt of securities on a FOP or DVP basis.

In 2016, NSD will continue improving the IT platform for clearing services and launch new services. In particular, clients will be offered an opportunity to use a service that integrates collateral management and DVP capabilities, and enables them to select securities for OTC settlements

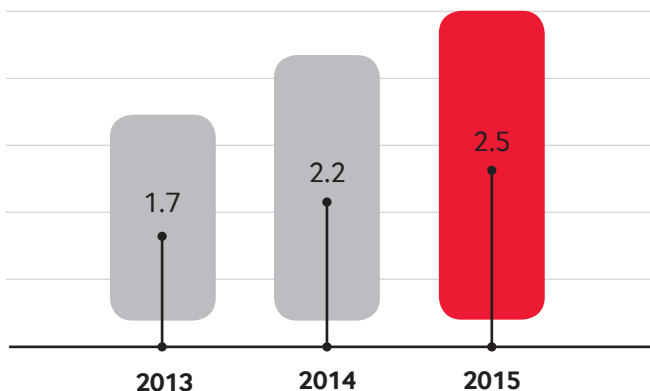
Number of transactions in the CMS in 2015



Thanks to the March 2015 launch of DVP settlements via the Real Time Gross Settlement System (BESP), clients had the opportunity to make settlements directly, using correspondent accounts with the Bank of Russia

In 2015, NSD continued improving its electronic matching services that are used for settling securities transactions more effectively

Value of OTC transactions on the DVP-1, DVP-2, DVP-3 basis (clearing at NSD), RUB trillion



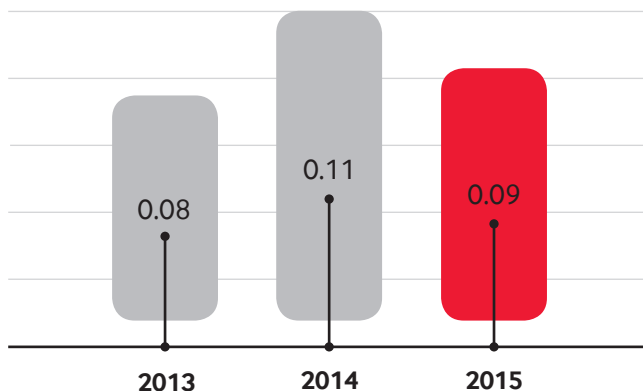
using trading accounts intended for on-exchange settlements.

### Electronic Matching

In 2015, NSD continued improving its electronic matching services that are used for settling securities transactions more effectively. Preliminary matching was introduced between FOP instructions and DVP instructions, making it possible to identify potentially matching instructions. Late in the reporting year, NSD offered all of its clients a service for electronic matching report distribution, which is now a mandatory stage of the lifecycle of a settlement instruction.

To simplify the process of filling in instructions, NSD's clients were offered an opportunity to use short aliases (8 characters instead of 30) to identify securities sub-accounts. Such aliases are in addition to counterparties' existing details and do not hinder the regular cycle of the execution of settlement instructions.

Number of OTC transactions on the DVP-1, DVP-2, DVP-3 basis (clearing at NSD), million



By the end of the year, the value of transactions using the 'Hold & Release' function increased. Clients started to more actively submit instructions first with the preliminary status 'For matching only', and then change their status to 'For execution.' To change the status of an instruction, clients may use a number of options designed in accordance with SMPG ISO 15022 recommendations.

The year 2016 will see the final stage of the electronic matching project, at which matching rules and execution times for FOP and DVP instructions will be harmonized, and the manual matching of instructions will be eliminated. All of these steps will make NSD much more compliant with the ECSDA's recommendations for the harmonization and standardization of settlements with preliminary matching of instructions.

### TRADE REPOSITORY

The main highlights of 2015 for NSD's Trade Repository were the launch, on 1 October, of mandatory reporting for all types of derivative transactions made under Master Agreements, and the launch of new reporting forms for fair value and margins. To ensure a successful launch, NSD ran load testing of IT systems and, at the request of clients, introduced an additional test environment and arranged for meetings with clients and the Bank of Russia representatives to discuss matters relating to extended format reporting. Another milestone for the Trade Repository was the introduction of a requirement for the mandatory use of LEI codes in reports.

By the end of 2015, the Trade Repository had 1,173 clients who reported, in aggregate, more than 450,000 trades with a total value of RUB 440 trillion – 1.8 times higher than in 2014. The majority of trades (239,000) reported to the Trade Repository were currency forwards.

In 2015, the Trade Repository took steps to optimize existing reporting formats, upgrade software, optimize data registration processes, design new messaging formats, and increase the capacity of communication channels to ensure the failure-free receipt of large volumes of data.

In order to improve data registration processes, and also to reflect the changes in the laws resulted in the extension of the list of financial instruments to be reported to the Trade Repository, NSD launched the 'Repository 2.0' project for further development of NSD's Trade Repository in Q3 2015. As part of the project, NSD plans to simplify interaction with market participants both from the legal and IT perspective.

The 'Repository 2.0' project will be one of the business priorities for NSD in 2016. The project will involve transitioning to the Trade Repository's new reporting model. This will remove a principal reporting agent from the process and merge its functions with those of a reporting agent. It will also concurrently replace powers of attorney with applications for assignment of principal agents that can be submitted in electronic format. Also, NSD plans to optimize the Trade Repository's software: the Web-client and the EDI File Gateway will be the key channels for communication with the Trade Repository, and are accessible at no charge. The implementation of the project will enable market participants to easily adapt to any future changes in the laws.

In addition, it will be mandatory as of 1 July 2016 to specify a Unique Transaction Identifier (UTI) when submitting reports to the Trade Repository. NSD is currently designing a mechanism for UTI assignment for reporting purposes.

### PAYMENT SYSTEM AND SETTLEMENT OPERATIONS

The practice in 2014 of maintaining high quality services and introducing new ones remained unchanged in 2015. Bank account (settlement) services are not only a separate area of business, but they are also integrated into NSD's depository and clearing operations, thus creating all-inclusive services.

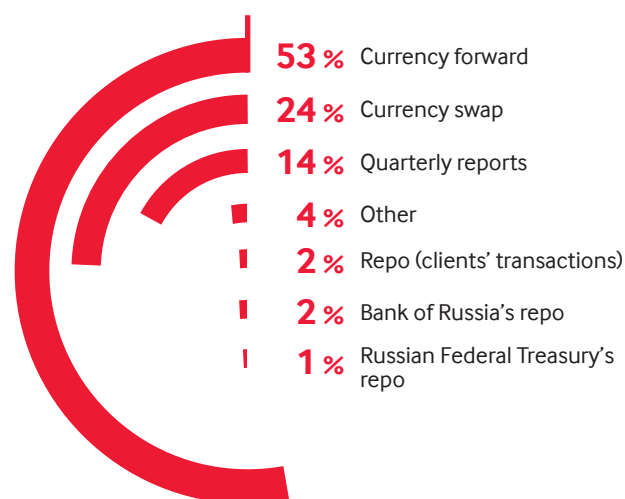
In 2015, NSD continued improving the NSD Payment System in line with the Bank of Russia's recommendations made following a 2014 assessment of the Payment System for compliance with the Principles for Financial Market Infrastructures issued by the Committee on Payment

and Settlement Systems of the Bank for International Settlements and the International Organization of Securities Commissions (CPMI-IOSCO). In particular, the governing documentation of the Payment System was systematized and updated. Also, certain measures were taken to improve risk management in the Payment System and to maintain the required level of uninterrupted operation.

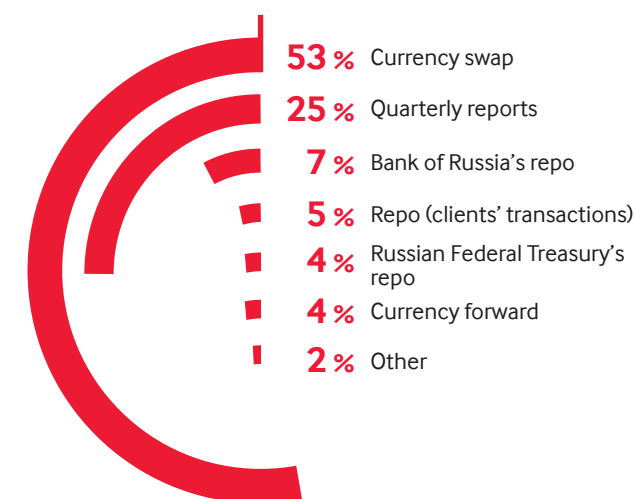
To improve its current services, NSD, in cooperation with the Bank of Russia, implemented settlements for OTC securities transactions on the DVP-1 basis via the Bank of Russia's Real Time Gross Settlement System (BESP) in 2015.

In close cooperation with the IT Department, conversion services were successfully improved. In addition to the opportunity offered to NSD's clients in 2014 to more efficiently manage cash balances in their accounts with

### Breakdown of Reported Trades (cumulative for 2015)



### Breakdown of the Value of Trades Registered by the Trade Repository (cumulative for 2015)





NSD by using electronic instructions to buy or sell a foreign currency for Russian rubles or another foreign currency, the following new options were launched:

- submission by a client of an instruction for payment in a currency different from the client account currency; and
- payment to a client of corporate-action-related In 2015, preparations were made for launching a service of making payments from accounts with NSD under a standing instruction. The service will be available to NSD's clients early in 2016.

### **Variety of Bank Accounts**

Since 2015, NSD's clients have had the option of making transactions using a nominee account or a clearing participant's special trading account.

## **The main highlight of 2015 for NSD's Trade Repository was the October 1 launch of mandatory reporting for all types of derivative transactions made under Master Agreements**

As a result of the increase in clients' portfolios of securities held with NSD and, consequently, due to the need to make related cash payments in connection with corporate actions, 2015 saw a substantial increase in the turnover in clients' bank accounts (+18% as compared to 2014).

In 2016, the main task will remain the same – that is, to ensure the steady development of the NSD Payment System and NSD's settlement services, with close

cooperation between NSD's business units and NSD's Research & Development Department and IT divisions.

### **RELATED SERVICES**

Apart from its five key business lines, NSD also offers related services, including SWIFT access services, electronic data interchange between NSD and its clients, and electronic data interchange with registrars.

### **SWIFT**

The active use of the SWIFT system and international standards is one of the key priorities for improving NSD's electronic data interchange processes. The total number of SWIFT messages sent in 2015 reached the level of 2.7 mln.

Since 1998, NSD has been offering the Shared Connection service that allows clients to connect to the SWIFT system through NSD's terminal. An organization using the SWIFT network through NSD's terminal becomes a SWIFT member and a completely independent user with its own SWIFT/BIC code; this allows such organizations to significantly reduce SWIFT connection costs.

In 2015, NSD was granted SWIFT Service Bureau status and developed and approved its service development strategy by setting principal targets. By the end of 2015, there were 54 clients using the Shared Connection service.

### **NSD's Electronic Data Interchange**

NSD maintains an electronic data interchange (EDI) with depositors, clearing participants, clearing houses, exchanges, account fiduciaries, securities sub-account

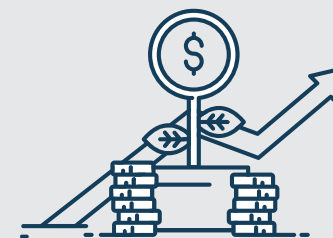


operators, registrars, issuers, correspondent depositories, credit or non-credit organizations that are bank account holders, NSD's regional agents, and other types of entities that are NSD's EDI participants. Electronic data interchange at NSD is maintained through such channels as SWIFT and EDI system channels (e-mail, Web-channels, Bank-Client Interface, Bank-Client Internet Interface, and Bank-Client Intranet Interface).

NSD's clients may also use a transit service that allows them to interchange electronic data via NSD's EDI system.

### Electronic Data Interchange with Registrars

As a multi-user automated system, NSD's electronic data interchange system can also be used for any communication between registrars and entities (NSD's EDI participants) listed in registers. EDI participants may not only submit documents to make transactions in a register, but also interchange electronic data with each other.



The turnover in clients' bank accounts increased

by **18%** in 2015



## CORPORATE GOVERNANCE

At NSD, corporate governance means that the principles and rules for managing and controlling the company, and that govern relationships between the company's executive bodies, Supervisory Board, shareholders, and other stakeholders (participants of corporate relationships), are aimed at setting NSD's objectives and determining the means to achieve them.

As the CSD, NSD is committed to satisfying the interests of its clients, regulators, and market participants.

### CORPORATE GOVERNANCE PRINCIPLES

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:

- enable shareholders to exercise their ownership rights;
- ensure the equitable treatment of shareholders;
- recognize the rights of stakeholders established by law;
- ensure the strategic guidance of NSD and that the Supervisory Board efficiently monitors NSD's executive bodies;
- enable NSD's executive bodies to run NSD's day-to-day operations to ensure the company's long-term and sustainable development;
- ensure accountability of the executive bodies to the Supervisory Board and shareholders;
- ensure that timely and accurate disclosure is made on all material matters regarding NSD, including the financial situation, performance, ownership, and governance of NSD;
- ensure effective control over NSD's financial and business activities with a view of safeguarding the rights and legitimate interests of shareholders and other stakeholders.

NSD follows the principles of corporate governance and corporate interactions recommended by the Moscow Exchange to the companies within the Moscow Exchange Group.

- 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 the 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 importance of the agenda issues and in accordance with the schedule of Supervisory Board meetings.
- 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, as well as Customer Committees responsible for certain key areas of NSD's business in order to deal 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.

**As the Central Securities Depository, NSD is committed to satisfying the interests of its clients, regulators, and market participants**

To ensure transparency, NSD discloses, in a timely fashion, full and accurate information on its activities, as required by Russian law and NSD's internal regulations

- 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 Russian law 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 gain access to all 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 confidential information is kept confidential, and the use of the same is monitored.

NSD assesses its corporate governance system in accordance with the Bank of Russia's recommendations laid down in its Letter No. 11-T "On a Corporate Governance Assessment Questionnaire for Credit Organizations" dated 7 February 2007.

In accordance with section 11.3.24.7 of NSD's Articles of Association, the company's corporate governance system is assessed at least once a year. In 2015, NSD's corporate governance system was assessed, and upon completion of the assessment a corporate governance report was prepared and approved by the Supervisory Board.

To assess its corporate governance, NSD also 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.

## Compliance with the Recommendations in the Corporate Governance Code

In April 2014, the Bank of Russia approved the Corporate Governance Code (the "Code") recommended for compliance by public joint-stock companies. The Code sets out the generally recognized principles reflecting the best global standards of corporate governance in Russian companies. A separate section of the Code contains a number of recommendations that describe methods and mechanisms of practical implementation of those corporate governance principles that are not governed by law. In particular, the Code sets out recommendations regarding the functioning of Boards of Directors (Supervisory Boards) and other management bodies, the establishment of a transparent remuneration system for members of management bodies and other key employees, and the introduction of an effective risk management and internal control system. Though NSD is not a public company, throughout 2015 NSD analyzed whether the current corporate practices at the company met the recommendations set out in the Code.

In fact, NSD already follows many such recommendations in building its corporate governance framework – evidence of a rather mature level of corporate governance at the company. NSD thoroughly analyzes both the positive and negative consequences of implementing specific recommendations set out in the Code. In doing so, NSD also takes into account current corporate governance practices at the company, shareholders' expectations, the current economic situation, and applicable regulatory guidelines.

In view of the large scale of regulatory changes already implemented and of legislators' plans to update the requirements to corporate governance, NSD expects that in 2016 the company will continue taking steps to bring its corporate governance practices in line with the recommendations contained in the Code.

## SUPERVISORY BOARD'S PERFORMANCE REPORT FOR 2015

In 2015, as in the previous year, a number of foreign experts joined the Supervisory Board to ensure that its decision-making process takes global trends and expertise into account.

The Supervisory Board performed the overall management of NSD's operations and held 12 meetings during the reporting year, including 6 in-person meetings.

At its meetings, the Supervisory Board made decisions on key issues relating to NSD's financial and business activities and business development, including the following:

- utilization of NSD's Revenues, Costs and Income Budget and NSD's Capital Expenditures Budget for 2015, and making adjustments thereto;
- approval of NSD's Revenues, Costs and Income Budget and NSD's Capital Expenditures Budget for 2016;
- preliminary approval of NSD's Annual Report for 2014;
- approval of the fees payable to NSD's independent auditor;
- making changes to NSD's Fee Schedules;
- approval of NSD's priority projects for 2016 and infrastructure projects; and
- bringing NSD's employee compensation plan in line with the Bank of Russia's Guidelines No. 154-I dated 17 June 2014;
- consideration of quarterly reports on NSD's activities provided by the Executive Board;
- consideration of issues related to the remuneration of the members of NSD's executive bodies.

Also, the Supervisory Board gave a great deal of attention to considering and deciding on issues of corporate governance at NSD, in particular:

- assessment of the state of corporate governance at NSD;
- assessment of NSD's internal control system;
- 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;

- approval of the purchase by NSD of additional shares in the share capital of SWIFT;
- convocation of the annual General Meeting of Shareholders in 2015;
- recommendations to the annual General Meeting of Shareholders in 2015;
- election of new members to Supervisory Board Committees and Customer Committees; and
- approval of NSD's interested party transactions.

In addition, decisions were taken on issues relating to NSD's operational efficiency and the amendment and approval of NSD's internal regulations, including the following:

- reviewing reports submitted by NSD's Internal Control and Internal Audit Departments and approving their work plans, and reviewing reports submitted by NSD's controllers;
- assessment of CSD's risks and of the effectiveness of risk management in CSD's business;
- approval of NSD's internal regulations, including:
  - amended and restated Clearing Rules;
  - amended and restated Electronic Communication Rules;
  - amended and restated Business Continuity Policy;
  - amended and restated Rules of Internal Control Aimed at Anti-Money Laundering and Countering Terrorism Financing (AML/CTF Rules);
  - amended and restated Terms and Conditions of Depository Operations;
  - amended and restated Regulations on the Nomination and Remuneration Committee of NSD's Supervisory Board;

**NSD thoroughly analyzes both the positive and negative consequences of implementing specific recommendations set out in the Corporate Governance Code**



- amended and restated Information Security Policy;
- amended and restated Management Rules for Risks Associated with the Activities of the Central Securities Depository;
- Rules of Risk Management in the Course of Clearing and in the Course of NSD Being Concurrently Engaged in Clearing Operations and Other Types of Business;
- Employee Compensation Plan Assessment Regulations; and
- Financial Recovery Plan;
- reviewing NSD's Customer Satisfaction Index calculation methodology and report;
- approval of NSD's risk appetite for 2015; and
- approval of NSD's key performance indicators (KPIs) for 2015.

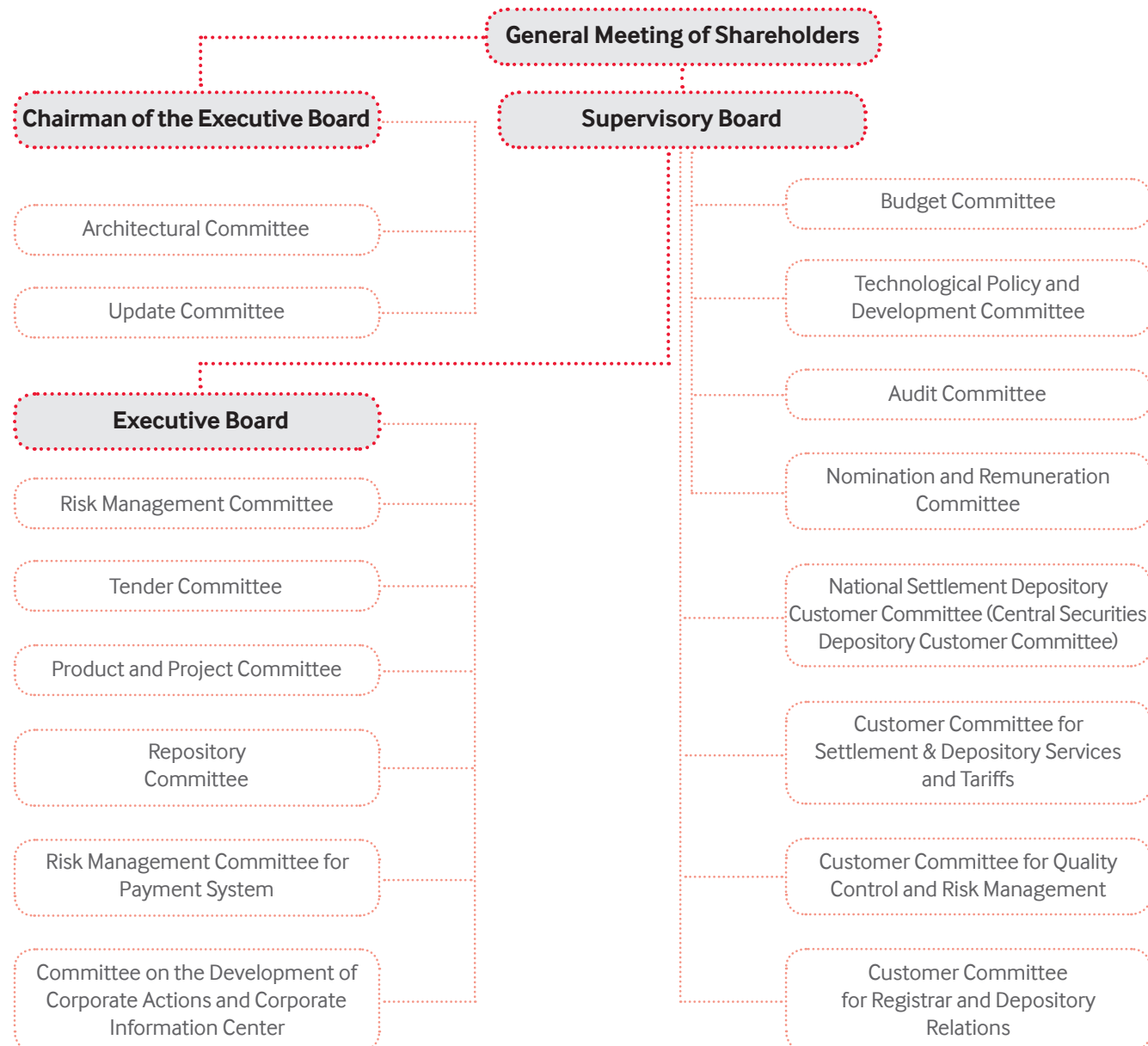
In 2015, the Supervisory Board conducted a self-assessment of its performance in accordance with the methodology recommended by the Bank of Russia in its Letter No. 11-T dated 7 February 2007. The self-assessment covered the following:

- overall management of NSD's operations and the establishment of business priorities;
- organizing Supervisory Board's activities, including its interaction with NSD's executive bodies;
- compliance with the corporate governance principles;
- availability of efficient risk management at NSD; and
- availability and quality of the necessary internal regulations that are approved exclusively by the Supervisory Board.

The self-assessment involved completing a questionnaire by the Supervisory Board members. The final self-assessment report was presented and discussed at an in-person meeting of the Supervisory Board. Upon discussion of the report, the Supervisory Board approved the key areas for the development and improvement of its activities in 2016.

In 2015, the Supervisory Board conducted a self-assessment of its performance in accordance with the methodology recommended by the Bank of Russia

## NSD'S CORPORATE GOVERNANCE STRUCTURE



**NSD's Management Bodies**

Body	Authority
General Meeting of Shareholders	The General Meeting of Shareholders is NSD's superior management body. General Meetings are convened at least once a year. The General Meeting makes decisions on key matters related to NSD's activities. The list of issues reserved for the General Meeting is set out in Federal Law No. 208-FZ "On Joint-Stock Companies" dated 26 December 1995 and NSD's Articles of Association.
Supervisory Board	The Supervisory Board is NSD's superior management body exercising management functions during the periods between General Meetings. Supervisory Board members are elected by the General Meeting of Shareholders for the period until the next annual General Meeting. The procedures of the Supervisory Board are governed by the Regulations on the Supervisory Board approved by the General Meeting.
Chairman of the Executive Board	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.
Executive Board	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.

**Committees and Commissions**

Additional information regarding NSD's Committees and Commissions is available on page 49–57 of this Report.



**Committees of the Supervisory Board**

Name	Mission
Audit Committee	Ensuring efficient work of NSD's Supervisory Board in organising the internal control and external audit system, as well as risk management at NSD.
Budget Committee	Improving the efficiency of 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 NSD's Supervisory Board relating to financial planning and financial resources management at NSD.
Nomination and Remuneration Committee	In-depth analysis of matters relating to the recruitment, assessment and remuneration of NSD's senior managers, including Supervisory Board members, the Chairman of the Executive Board, Executive Board members, and members of the Internal Audit Commission, and preparation of materials to be considered at Supervisory Board meetings.
Technological Policy and Development Committee	Analysis of development of NSD's IT systems, and making recommendations to the Supervisory Board and the Executive Board on matters relating to the technological policy pertaining to the creation, maintenance, operation, and development of IT systems.

**Committees of the Executive Board**

Name	Mission
Risk Management Committee	Assistance to the Executive Board in the field 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 minimizing the risk of NSD contractors failing to deliver.
Product and Project Committee	NSD's project management.
Repository Committee	Considering proposals and making recommendations to the Executive Board for the development and improvement of NSD's trade repository activities.
Risk Management Committee for Payment System	Considering proposals and making recommendations to NSD's executive bodies in the field of risk management in the NSD Payment System.
Committee on the Development of Corporate Actions and Corporate Information Center	Considering proposals and making recommendations to NSD's Executive Board for the development of the Corporate Actions and Corporate Information Center.

#### Committees of the Chairman of the Executive Board

Name	Mission
Architectural Committee	Making proposals to ensure uninterrupted operation of IT infrastructure, development of the IT strategy, and monitoring its implementation.
Update Committee	Quality analysis of controls in the course of updating software or IT infrastructure, and risk management in the course of making updates.

**Customer Committees**

Name	Mission
Customer Committee for Quality Control and Risk Management	Making recommendations to the Supervisory Board on the client and marketing policy, improving the quality of clients' service, and approval of internal regulations relating to clearing activities.
Customer Committee for Settlement and Depository Services and Tariffs	Analysing customers' needs, making recommendations for the development of depository and settlement products and NSD's tariff policy.
Customer Committee for Registrar and Depository Relations	Making recommendations to improve existing methods of interaction between NSD and registrars, and proposals to change existing technologies being used for the interaction between NSD and registrars.
National Settlement Depository Customer Committee (Central Securities Depository Customer Committee)	Approval of internal regulations of NSD as the central securities depository and NSD's fees for depository services.

**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 procedures of NSD's Internal Audit Commission are governed by the Regulations on the Internal Audit Commission approved by the General Meeting.

**Supervisory Board members elected at the annual General Meeting of Shareholders on 24 June 2014<sup>1</sup>**

Eddie Astanin	Valerya Avxentyeva
Sergey Berezhny	Oleg Vyugin
Paul Bodart	Bella Zlatkis
Alexander Ikonnikov	Paul James Ostling
Andrey Popov	Vladimir Reutov
Oksana Strakhova	Dmitry Tolokonnikov
Nadezhda Ushakova	Alexey Fedotov
Dmitry Shcheglov	

**Supervisory Board members elected at the annual General Meeting of Shareholders on 26 May 2015. Information on the Supervisory Board Members<sup>2</sup>**

Valerya Avxentyeva
<b>Date of birth:</b> 6 February 1969
<b>Education:</b> Moscow State Evening Institute of Metallurgy, 1996 Finance Academy under the Government of the Russian Federation, 2002
<b>Employment:</b> Chief Operating Officer, Otkritie Broker JSC
<b>Previous positions:</b> 2007 – 2014 – Deputy Director General (Operations), Chief Operating Officer, Director General, Otkritie Broker JSC

<sup>1</sup> Information on the Supervisory Board members elected on 24 June 2014 is available in NSD's Annual Report for 2014.

<sup>2</sup> As of 31 December 2015.

**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 under the Government of the Russian Federation, 1996  
Candidate of Technical Sciences, 1992

**Employment:**

Chairman of the Executive Board, National Settlement Depository

**Previous positions:**

2009 – 2010 – Deputy Director General, Director General, National Depository Center  
2005 – 2009 – Deputy Director General, Not-for-Profit Partnership National Depository Center  
1994 – 2004 – MICEX CJSC

**Alexander Afanasiev**

**Date of birth:** 12 January 1962

**Education:**

Moscow Finance Institute, 1984  
Moscow Finance Institute, post-graduate course, 1987

**Employment:**

Chairman of the Executive Board, Moscow Exchange MICEX-RTS PJSC

**Previous positions:**

Since September 1998 – Deputy Chairman of the Executive Board, Bank WestLB Vostok, a subsidiary of the German banking group WestLB AG  
Since 1996 – Executive Board member of Bank Imperial

**Joerg Bongartz**

**Date of birth:** 7 July 1963

**Education:**

University of Hagen (Germany), 1989

**Employment:**

Managing Director, Deutsche Bank AG

**Previous positions:**

2006 – 2015 – Chairman of the Executive Board, Deutsche Bank LLC

**Oleg Vyugin**  
(independent director)**Date of birth:** 29 July 1952**Education:**

Lomonosov Moscow State University, 1974

Lomonosov Moscow State University, post-graduate course, 1978

**Employment:**

Professor and Stock Markets and Investment Market Chair at the Federal State Autonomous Educational Budgetary Institution of Higher Professional Education "National Research University Higher School of Economics"  
Currently also serves as Chairman of the Board of Directors at MDM Bank and 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

**Sean Glodek****Date of birth:** 17 July 1971**Education:**

Stanford University, 1996

The Wharton School of the University of Pennsylvania, 2004

**Employment:**

Director, Russian Direct Investment Fund (RDIF)

**Previous positions:**

Head, Darby Private Equity, Warsaw office

**Bella Zlatkis****Date of birth:** 5 July 1948**Education:**

Moscow Finance Institute, 1970

All-Union Correspondence Financial Institute, post-graduate course, 1978

Candidate of Economic Sciences

**Employment:**

Deputy Chairperson of the Executive Board, Sberbank of Russia

**Aleksandar Kronic**  
(independent director)

**Date of birth:** 6 April 1972

**Education:**

Thames Valley University, 1994

**Employment:**

Director, Green River Capital Consulting Ltd

**Previous positions:**

Head of Sales, J.P. Morgan Europe Ltd, CIB

Head of Sales, DCC Services, EMEA, Citigroup GTS

**Paul James Ostling**  
(independent director)

**Date of birth:** 22 September 1948

**Education:**

Fordham University, 1969

Fordham University School of Law, 1973

**Employment:**

Member of the Board of Directors, Uralkali

Brunswick Rail Limited, Board Chairman

Phoenix Neftegaz Services, LLC, Board member

Datalogix, Inc, Board member

**Previous positions:**

2007 – 2009 – CEO and General Director, Kungur Oilfield Equipment and Services

1977 – 2007 – Ernst & Young:

2003 – 2007 – Global Chief Operating Officer

1994 – 2003 – Global Executive Partner

1985 – 1994 – Vice Chairman and National Director of Human Resources

1977 – 1985 – Associate and Assistant General Counsel

**Andrey Popov**

**Date of birth:** 21 January 1973

**Education:**

Truman State University (Missouri, USA), 1995

Finance Academy under the Government of the Russian Federation, 1996

**Employment:**

Chief Information Officer (CIO), Raiffeisen Bank, Russia

**Previous positions:**

2011 – 2013 – Deputy Head (IT) of Banking Transactions and IT Directorate, Raiffeisen Bank, Russia

2009 – 2011 – Deputy Chief Accountant, Head of Banking Technologies Unit of the Operations and Technologies Department, ZAO Citibank

**Vladimir Reutov**

**Date of birth:** 7 February 1963

**Education:**

Leningrad Shipbuilding Institute, 1986

International Banking Institute, 1998

St. Petersburg State University, 1998

**Employment:**

Deputy Chairman of the Management Board, Bank "Saint Petersburg"

**Oksana Strakhova**

**Date of birth:** 28 November 1968

**Education:**

Moscow State Pedagogical University, 1993

Finance Academy under the Government of the Russian Federation, 2001

**Employment:**

Head of Custody, Vnesheconombank

**Previous positions:**

2008 – 2013 – Deputy Head of Custody, Vnesheconombank



**Nadezhda Ushakova****Date of birth:** 6 February 1967**Education:**

State Finance Academy, 1988

**Employment:**

Senior Vice President, Head of Depository, VTB Bank

**Previous positions:**

2004 – 2009 – Head of Custody, Deutsche Bank LLC

1997 – 2004 – Custody, ING Bank (Eurasia) ZAO

**Tatiana Chepeleva****Date of birth:** 1 July 1976**Education:**

Moscow University of Consumer Cooperation, 1999

**Employment:**

Managing Director, Head of IB Operations Strategy, FG BCS

**Previous positions:**

Deputy Chief Operating Officer, Bank Otkritie

Head of Moscow Office, OTKRITIE SECURITIES LIMITED

**Ilya Yuzhanov (independent director)****Date of birth:** 7 February 1960**Education:**

Leningrad State University, 1982

**Employment:**

Member of the Board of Directors, United Wagon Company

Chairman of the Board of Directors, Polyus Gold International Limited

Member of the Supervisory Board, Independent Directors Association, Russia

**Previous positions:**

Chairman of the Supervisory Board, ALROSA

Member of the Board of Directors, Otkritie Financial Corporation

Chairman of the Board of Directors, NOMOS-BANK

Member of the Board of Directors, Uralkali

Member of the Board of Directors, Polymetal

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

**Information on the Executive Board Members<sup>3</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 under the Government of the Russian Federation, 1996

Candidate of Technical Sciences, 1992

**Employment:**

Chairman of the Executive Board, National Settlement Depository

**Previous positions:**

2009 – 2010 – Deputy Director General, Director General, National Depository Center

2005 – 2009 – Deputy Director General, Not-for-Profit Partnership National Depository Center

1994 – 2004 – MICEX CJSC

**Irina Veremeenko, Chief Accountant,  
Director of Accounting and Reporting Department**

**Date of birth:** 24 May 1965

**Education:**

Moscow Finance Institute, 1987

**Employment:**

Chief Accountant, Director of Accounting and Reporting Department, Executive Board Member, NSD

<sup>3</sup> As of 31 December 2015.

### Sergey Putyatinskiy, IT Director

**Date of birth:** 15 July 1982

**Education:**

Saratov State University named after N.G. Chernyshevsky, 2004

**Employment:**

IT Director, NSD

**Previous positions:**

2012 – 2013 – Vice President, IT Director, Bank Otkritie

2009 – 2012 – Business Development Director, Neoflex Consulting

### Andrey Shlyappo, Deputy Chairman of the Executive Board

**Date of birth:** 12 September 1968

**Education:**

Moscow State Institute of Steel and Alloys (Technological University), 1998

**Employment:**

Deputy Chairman of the Executive Board, Executive Board Member, NSD

**Previous positions:**

2010 – 2014 – Director of Depository Transactions Department, Vice President, Director of Operations, NSD

2009 – 2010 – Deputy Director General and Director of Operations, National Depository Center

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

## SHAREHOLDERS

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

A Shareholders Agreement concerning NSD was adopted on 30 June 2011 that sets forth the core principles of corporate governance for NSD. These were agreed upon by the shareholders upon establishment of the company.

The execution of the Shareholders Agreement as well as amendments to NSD's Articles of Association and other internal regulations secured the right for NSD's customers 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 entitling them 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 rates – that is, to 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.

In 2014, certain foreign organizations from among international central securities depositories became NSD's shareholders. As a result, NSD is able to position itself as a Eurasian (regional) international central securities depository. This allows NSD to offer foreign investors CSD services for execution of transactions with securities of Russian or other CIS issuers, and also to offer investors from CIS countries services for execution of transactions with foreign securities through accounts held by international or CIS CSDs with NSD.

The presence of foreign infrastructure institutions among NSD's shareholders demonstrates that Russia's central securities depository is recognized in the global arena and that its corporate governance system is trusted.

#### List of NSD's Shareholders<sup>4</sup>

1	Public Joint Stock Company "Moscow Exchange MICEX-RTS" (Moscow Exchange)
2	Gazprombank (Joint-Stock Company)
3	Limited Liability Company "Deutsche Bank"
4	ROSBANK Public Joint-Stock Company
5	CentroCredit Joint Stock Commercial Bank
6	VTB Bank (public joint-stock company)
7	Bank for Development and Foreign Economic Activities (Vnesheconombank)
8	ALOR INVEST Ltd
9	CLOSED JOINT STOCK COMPANY "BANK CREDIT SUISSE (MOSCOW)"
10	Joint stock company Raiffeisenbank
11	Stock company Saint-Petersburg Currency Exchange

<sup>4</sup> As of 31 December 2015

12	Closed Joint Stock Company UniCredit Bank
13	KIT Finance Capital (Limited liability company)
14	Commercial Bank "J.P. Morgan Bank International" (Limited Liability Company)
15	Limited Liability Company "ATON"
16	BrokerCreditService Limited
17	"OOO Morgan Stanley Bank"
18	Open Joint-Stock Company "ALFA-BANK"
19	"Bank "Saint-Petersburg" Public Joint-Stock Company
20	Otkritie Broker Joint Stock Company
21	Public Joint-Stock Company "Bank Otkritie Financial Corporation"
22	Sberbank of Russia
23	Joint stock company "Sotsinvestbank"
24	INFINITUM Asset Services
25	"METROPOL" Investment Financial Company Ltd
26	Renaissance Broker Limited
27	MDM Bank, Public Joint Stock Company
28	Irko CJSC
29	Novyi Registrator JSC
30	Professional Registration Center CJSC
31	Joint Stock Company "DRAGa"
32	Joint Stock Company "Independent Registrar Company" (formerly known as JSC "Computershare Registrar")
33	Open Joint Stock Company Investment Company "ZERICH Capital Management"
34	Evrofinance Mosnarbank
35	Clearstream Banking S.A.
36	Euroclear Bank SA/NV
37	Republican Unitary Enterprise "Republican Central Securities Depository" (Republic of Belarus)

## General Meeting of Shareholders

The procedures at General Meetings of Shareholders are governed by the Regulations on NSD's General Meeting of Shareholders approved by the General Meeting.

The General Meeting that approved NSD's Annual Report for 2014 as well as NSD's auditor was held on 26 May, 2015. The General Meeting also made decisions on profit distribution and dividend payment for 2014, elected the Supervisory Board and the Internal Audit Commission, made decisions on remuneration of the Supervisory Board members, approved interested-party transactions, and approved the amended and restated NSD's Supervisory Board Members' Remuneration and Expenses Reimbursement Regulations.

No extraordinary General Meeting of Shareholders was held in 2015.

## Registrar

The Registrar maintaining the share register of NSD is Registrar Society "STATUS" 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 26 May 2015 passed the following resolutions in relation to dividend payment to NSD's shareholders:

- Pay RUB 3,389,935,000 out of NSD's net profit for 2014 as dividends to the shareholders.
- Approve the dividend amount of RUB 2,871.18 per registered ordinary share in NSD, before dividend income tax under article 284 (sub-paragraph 1, paragraph 3) of the Russian Tax Code.
- Approve the date of 5 June 2015 as the record date for dividend payment purposes.
- Pay the dividends within the timeframe provided for by Russian laws.

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

## REMUNERATION OF NSD'S SUPERVISORY BOARD MEMBERS

The Federal Law "On Joint-Stock Companies" stipulates that upon decision of the General Meeting of Shareholders remuneration may be paid to the Supervisory Board members during their term in office. The amount of remuneration is to be approved by the General Meeting of Shareholders in accordance with NSD's Supervisory Board Members' Remuneration and Expenses Reimbursement Regulations.

The following factors shall be taken into account to determine the amount of remuneration payable to the Supervisory Board members:

- membership in the Supervisory Board;
- performance of the functions of the Supervisory Board Chairperson / Deputy Chairperson;

- membership in a Supervisory Board Committee;
- performance of the functions of the Head of a Supervisory Board Committee; and
- attendance at Supervisory Board meetings.

The total remuneration paid in 2015 to the Supervisory Board members amounted to RUB 28,687,500, including RUB 9,937,500 paid to the independent directors.

## REMUNERATION OF NSD'S EXECUTIVE BOARD MEMBERS

Remuneration to the Executive Board members is paid in accordance with their employment contracts. In accordance with NSD's Articles of Association, the amount of remuneration is approved by the Supervisory Board.

Remuneration payable to the Executive Board members comprises two components:

- Monthly remuneration (salary) payable for the performance of duties under the employment contract; and
- Performance-based remuneration. Key performance indicators are set by the Supervisory Board in accordance with the recommendations made by the Nomination and Remuneration Committee of the Supervisory Board. Individual performance targets are set for each Executive Board member, and the amount of remuneration payable to such member depends on whether the performance targets are met.

The total remuneration paid to the Executive Board members in 2015 amounted to RUB 54,897,331.4<sup>5</sup>.

<sup>5</sup> Information regarding remuneration to be disclosed in accordance with Bank of Russia's Guidelines No. 154-I dated 17 June 2014 is available in the company's annual financial statements prepared according to Russian Accounting Standards (RAS).

## NSD'S SUPERVISORY BOARD COMMITTEES AND OTHER COMMITTEES

### Audit Committee

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

*Highlights of the year:* In 2015, the Audit Committee held 11 meetings and dealt with 47 issues.

In 2015, the Committee was involved in the process of agreeing upon NSD's updated regulations concerning business continuity and risk management, including the Financial Recovery Plan, business continuity and risk management policies, and relevant strategies. The Committee provided advisory support in the course

of implementing the Principles for Financial Market Infrastructures and the Bank of Russia's requirements to an employee compensation plan, and was also involved in a number of new AML/CTF and IT projects and other initiatives. At its meetings, the Committee conducted regular reviews of plans and performance reports of NSD's internal control divisions and made recommendations to improve their performance. In 2016, the Committee will continue contributing to the further improvement of corporate governance at NSD and will thoroughly monitor any legal developments and potential economic challenges in order to help NSD efficiently respond to them.

### Members (as of 31 December 2015):

1	Paul James Ostling	Independent director, Chairman of the Committee
2	Valerya Avxentyeva	Chief Operating Officer, Otkritie Broker JSC
3	Aleksandar Kronic	Independent director
4	Oksana Strakhova	Head of Custody, Vnesheconombank
5	Nadezhda Ushakova	Senior Vice President, Head of the Depository, VTB Bank (public joint-stock company)

### Budget Committee

*Mission:* The Budget Committee's role is to improve the efficiency of 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 NSD's Supervisory Board meetings relating to financial planning and financial resources management at NSD.



*Highlights of the year:* In 2015, the Committee held 7 meetings. The Committee's top priorities in 2015 were related to NSD's budget planning and tariff policy. The Committee's key task for 2015 was to ensure the operational cost-effectiveness of NSD's business while providing earmarked financing for priority projects. For

these purposes, the Committee regularly reviewed NSD's management accounts and made recommendations regarding fee schedules to the Supervisory Board. The Committee's key task for 2016 will be to ensure the operational cost-effectiveness of NSD's business during a time of economic crisis.

#### Members (as of 31 December 2015):

1	Evgeny Fetisov	Financial Director, Moscow Exchange, Chairman of the Committee
2	Joerg Bongartz	Managing Director, Deutsche Bank AG
3	Aleksandar Krunic	Independent director
4	Andrey Popov	Chief Information Officer (CIO), Member of the Management Board, Raiffeisen Bank, Russia

#### Nomination and Remuneration Committee

*Mission:* In-depth analysis of matters relating to the recruitment, assessment and remuneration of NSD's senior managers, including Supervisory Board members, the Chairman of the Executive Board, Executive Board members, and other key employees and members of the Internal Audit Commission, and preparation of materials to be considered at Supervisory Board meetings.

*Highlights of the year:* In 2015, the Committee held five meetings during which the Committee members made recommendations concerning the composition of NSD's Executive Board and remuneration payable to the Executive Board members; determined and assessed the Key Performance Indicators (KPI) for NSD's senior managers; and made recommendations as to:

- new nominees to the Supervisory Board to be elected at the annual General Meeting in 2015;
- NSD's key performance indicators for 2015;
- remuneration of the Chairman of the Executive Board and Executive Board members for 2014;
- making amendments to NSD's Supervisory Board Members Remuneration and Expenses Reimbursement Regulations; and
- bringing NSD's employee compensation plan in line with the Bank of Russia's Guidelines No. 154-I dated 17 June 2014.

The Committee Chairman coordinated efforts to assess the state of corporate governance at NSD based on the 2015 results.

In 2016, one of the Committee's key tasks will be to make recommendations to the Supervisory Board to



bring NSD's employee compensation plan in line with the Bank of Russia's Guidelines No. 154-I dated 17 June 2014.

#### Members (as of 31 December 2015):

1	Ilya Yuzhanov	Chairman of the Committee
2	Alexander Afanasiev	Chairman of the Executive Board and CEO, Moscow Exchange
3	Oleg Vyugin	Independent director
4	Bella Zlatkis	Deputy Chairperson of the Executive Board, Sberbank of Russia

#### Technological Policy and Development Committee

*Mission:* Analysis of development of NSD's IT systems to ensure they meet the needs of financial markets participants, and making recommendations to the Supervisory Board and the Executive Board on issues related to the technological policy concerning the creation, maintenance, operation, and development of such IT systems.

*Highlights of the year:* In 2015, the Committee was involved in improving the Electronic Communication Rules that NSD applies when providing services to its clients, as well as in updating the company's Information Security Policy and choosing solutions designed to automate corporate actions processing. Together with the Technical Policy Committee of Moscow Exchange's Supervisory Board, the Committee considered a number of matters relating to the

development of trading and clearing solutions, the improvement of approaches to Moscow Exchange Group's software testing, as well as the improvement of the software itself. Both Committees paid particular attention to strategic planning in the field of IT, both at NSD and within the Moscow Exchange Group as a whole. In particular, the Committees conducted regular reviews of implementation reports for strategic IT initiatives and considered proposals as to the implementation of new management solutions and tools.

The Committee's priority task for 2016 will be to deal with NSD's strategic development in the field of IT, setting a new planning horizon.

**Members (as of 31 December 2015):**

1	Anatoly Karachinsky	President of the IBS Group, Chairman of the Committee
2	Vladimir Gibenko	IT Director, Renaissance Capital
3	Nikolay Kolodeev	Director, Eldis-Soft
4	Vladimir Kurlyandchik	Director for Development, ARQA Technologies
5	Sergey Polyakov	Member of the Executive Board, Head of IT, Moscow Exchange
6	Andrey Popov	Chief Information Officer (CIO), Member of the Management Board, Raiffeisen Bank, Russia
7	Sergey Putyatinskiy	IT Director, NSD
8	Mikhail Khasin	Deputy Director General, Sberbank-Technologies
9	Alexander Chetverukhin	Head of IT, Barclays Capital Russia
10	Yuri Yartsev	Chief Technologist, OTKRITIE Trading

**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 field of corporate risk management. The Committee focuses on improving and strengthening risk management at NSD and ensuring immediate response to critical risks.

*Chairperson:* Maria Krasnova, Deputy Chairman of the Executive Board.

*Highlights of the year:* In 2015, the Committee held six meetings, at which the Committee members dealt with a number of matters relating to the implementation

of business continuity, and plans for disaster recovery and building failure-free infrastructure, and also reviewed reports on business continuity and disaster recovery plan tests. In addition, the Committee dealt with matters relating to the taking of residual risks identified by risk and control self-assessments.

**Risk Management Committee for Payment System**

*Mission:* The Committee makes recommendations in the field of risk management in the NSD Payment System, including recommendations as to the eligibility criteria for participation in the NSD Payment System, requirements to payment infrastructure

service providers, and issues of information security in the NSD Payment System.

*Chairperson:* Oleg Lisovoy, acting Director of NSD's Risk Management Department.

*Highlights of the year:* In 2015, the Committee held five meetings. Apart from organizational matters, the Committee members dealt with such matters as the necessary frequency of conducting risk management assessments of the NSD Payment System, the possibility of placing SWIFT SCRL (Belgium) on the list of payment infrastructure service providers for the NSD Payment System, and substantiation of the adequacy of liquid net assets available to NSD to ensure recovery or completion of critical transactions or services in the event of losses and to cover current operating costs connected with the NSD Payment System operation. In addition, the Committee made recommendations to NSD's Executive Board regarding the methodologies intended to substantiate NSD Payment System participation requirements applicable to different categories of organizations and the adequacy of such requirements to the risks before the NSD Payment System.

### Tender Committee

*Mission:* Securing the best terms for procuring goods, services, and works needed to support NSD's operations, and minimizing the risk of NSD contractors failing to deliver.

*Chairperson:* Gennady Booth, Director of Strategic Planning and Control Department, NSD<sup>6</sup>.

*Highlights of the year:* In 2015, the Committee held 13 meetings and primarily dealt with issues related to the selection of IT service providers required to design and implement services as part of the Corporate Actions Reform program.

<sup>6</sup> Prior to 24 April 2015, the Committee was chaired by Zhanna Klimova, Head of Financial and Business Accounting at NSD.

### Product and Project Committee

*Mission:* The Committee was set up to manage 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 the project and product management of the company and to ensure that the project implementation complies with management policies and regulations.

*Chairperson:* Irina Veremeenko, Chief Accountant, Director of Accounting and Reporting Department, Executive Board member.

*Highlights of the year:* In 2015, the Committee held 22 meetings, at which the Committee members dealt with, among other things, the following matters: changes to project activities, a software upgrade for tax reporting purposes, changes to OTC transactions reporting, integration services, and a software upgrade in accordance with Russian Government Resolution No. 1267 "On Communications between Financial Market Organizations and Competent Authorities" dated 26 November 2015.

### Committees of the Chairman of the Executive Board

#### Update Committee

*Mission:* The Committee's key role is to mitigate the negative impact that software updates have on the quality of services provided to NSD's clients. The Committee's objectives are analysis of whether control measures used or planned in connection with software updates are adequate; and development of measures to mitigate the risk of the negative impact that the software updates have on the quality of services.

*Chairperson:* Andrey Shlyappo, Deputy Chairman of the Executive Board, Executive Board member.

*Highlights of the year:* In 2015, the Committee held 76 meetings at which the Committee members dealt with matters relating to the installation of software



releases or patches, assessment of non-project-related requests, and scheduled software upgrades.

### Architectural Committee

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

- making proposals to ensure failure-free and reliable operation of electronic systems and IT infrastructure critical for NSD's business; and
- making proposals to ensure competitive advantages and leadership for NSD by developing and monitoring the implementation of the IT strategy, introducing and using advanced and promising settlement, depository, and clearing technologies to address the strategic, tactical and operational tasks set before NSD.

*Chairperson:* Sergey Putyatinskiy, IT Director.

*Highlights of the year:* In 2015, the Committee held 25 meetings at which it dealt with the following matters: requirements for the construction and operation of NSD's IT infrastructure; development of messaging formats; approval of a data management concept; NSD's IT development strategy in the field of software quality control; selection of a solution for FATCA purposes; implementation of CMMI; selection of a BPM platform; designing a solution for access

The Update Committee's key role is to mitigate the negative impact that software updates have on the quality of services provided to NSD's clients. The Committee analyzes the effectiveness of current control measures and develops new ones to minimize the negative impact such changes can cause

to cryptographic functionality from a webpage code in a browser; security of web-services; introduction, in the Analysis and Design Division, of an alerting system for providing information on tasks that require

involvement of analysts; streamlining the process of collecting information on system settings before releases; automated upgrade of NSD's IT systems in test environments; discussion of the current vision of SSO for internal and external users, etc.

### Customer Committees

#### National Settlement Depository Customer Committee (Central Securities Depository Customer Committee)

*Mission:* The Committee is responsible to review and approve internal regulations (amendments thereto) of NSD as the central securities depository, including regulations that require approval by the Bank of Russia.

*Chairperson:* Polina Goloschapova, Head of Operations Department, Credit Swiss Bank (Moscow) CJSC.

*Highlights of the year:* In 2015, the Committee held eight meetings at which the Committee members approved the amended and restated Electronic Communication Rules, Risk Management Policy, and Terms and Conditions of NSD's Depository Operations, and made amendments to the Fee Schedule for NSD's Depository Services.

#### 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 customer services and ensuring control of their quality, including in the field of software, hardware and technological support of NSD's activities;
- improving products and services offered by NSD;

- reducing NSD's operational risks in delivering services;
- informing NSD's customers about new products and services, and supporting the promotion of such services in the financial services market;
- approving internal regulations relating to NSD's clearing operations.

*Chairperson:* Olga Petrova, Head of Product Development Unit, Depository Division, Securities Department, AO Citibank<sup>7</sup>.

*Highlights of the year:* In 2015, the Committee held six meetings at which the Committee members made recommendations as to the promotion of NSD's new services, dealt with such matters as the risk management system, development of information services and products, and survey methodology for calculating the Customer Satisfaction Index; approved the Rules of Risk Management in the Course of Clearing and in the Course of NSD Being Concurrently Engaged in Clearing Operations and Other Types of Business; and made recommendations for optimizing NSD's DVP services and improving the quality of NSD's IT services.

### **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; and
- making recommendations to NSD's Supervisory Board and executive bodies on the following matters:
  - development of depository and settlement products;
  - development and standardization of tariffs;
  - marketing policy aimed at offering competitive services; and
  - and other matters directly related to NSD's development strategy.

*Chairperson:* Dmitry Zaliznyak, Head of Direct Custody and Clearing, CB "J.P. Morgan Bank International" (LLC).

*Highlights of the year:* In 2015, the Committee held eight meetings, at which the Committee members dealt with matters relating to the development of NSD's priority projects (such as the corporate actions reform, electronic matching, and Corporate Information Center) and the pricing policy (as regards fees for cash services and transmission of statements via the SWIFT system).

In addition, NSD's employees regularly provided the Committee members with information on the progress made in the key areas of business.

### **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 holders of UIT units;
- making proposals to change existing technologies being used for the interaction between NSD and registrars, including electronic data interchange technologies;

**At its meetings, the Committee made recommendations for the promotion of NSD's new services and reviewed the current risk management system**

- making proposals to develop new technologies aimed at improving the quality of interaction between NSD and registrars/specialized depositories; and
- dealing with any other matters relating to the Committee's tasks.

<sup>7</sup> Prior to 22 December 2015, the Committee was chaired by Svetlana Kamasheva, Managing Director, JSC VTB Bank.

*Chairperson:* Yuri Taranovsky, General Director, Reyestr JSC.

*Highlights of the year:* In 2015, the Committee held five meetings, at which the Committee members dealt with, among others, the following matters:

- interaction between securities market participants in connection with the provision of shareholders (customers of nominee holders) with information on corporate actions and with the participation of such persons in corporate actions by submitting documents in electronic format;
- development of messaging formats based on the ISO 20022 and ISO 15022 standards, which are intended to

One of the most important questions the Committee considered during its meetings was development of NSD's Web-client and shareholders' participation in general meetings using the e-proxy voting service

be used for the purposes of Federal Law No. 39-FZ "On the Securities Market" dated 22 April 1996;

- development of NSD's Web-client and participation in general meetings of shareholders using the e-proxy voting service;
- introduction of the Rules of Communication with NSD in Connection with the Interchange of Corporate Information and Corporate Actions or Other Operations Processing, which set out the procedure for providing information on general meetings of shareholders and submitting voting documents; and
- development of NSD's services to be launched on 1 July 2016 (the roadmap of the corporate actions reform).

## Repository Committee

*Mission:* The Repository Committee's primary role is to consider proposals and make recommendations to NSD's Executive Board for the development and improvement of NSD's repository activities.

*Chairperson:* Alexander Chetverukhin, Head of IT, Barclays Capital Russia.

*Highlights of the year:* In 2015, the Committee held four meetings, at which the Committee members dealt with a wide range of matters, including changes in the laws on repository activities; performance of NSD's Trade Repository in the current year; reduction in the time required for registration of reporting forms; and the Bank of Russia's plans for the Trade Repository development.

## Committee on the Development of Corporate Actions and Corporate Information Center

*Mission:* The Committee's primary role is to review proposals and make recommendations to NSD's Executive Board for the development of the Corporate Actions and Corporate Information Center.

*Chairperson:* Natalia Shtalenkova, Head of Product Development Division, Depository Services Department, CB "J.P. Morgan Bank International" (LLC).

*Highlights of the year:* In 2015, the Committee held five meetings at which the Committee members dealt with various matters relating to the corporate actions reform, including: the development and launch of the Web-client; methods of communication with securities market participants; contents and formats of messages to be used to provide information to shareholders; development of the e-proxy voting project; introduction of the Rules of Communication with NSD in Connection with the Interchange of Corporate Information and Corporate Actions or Other Operations Processing, which set out the procedure for providing information on general meetings of shareholders and submitting voting documents required by Section 8.8 of the Federal

Law “On the Securities Market”; and development of NSD’s services to be launched on 1 July 2016 (the roadmap of the corporate actions reform).





## RISK MANAGEMENT



NSD's risk management system aims to promote sustainable development of the Russian financial market in accordance with international standards and is focused on effective risk management for both the company and participants of the financial market infrastructure.

The main purpose of risk management at NSD is to ensure the operational reliability and steady development of the company's key areas of business and to guarantee that the company meets its obligations to its shareholders, clients, regulator, and other stakeholders. Risk management, therefore, covers all of NSD's areas of business:

- Central Securities Depository;
- Clearing and tri-party services;
- Payment System;
- Trade Repository; and
- Corporate Actions and Corporate Information Center.

Effective risk management contributes both to the optimal decision-making in the context of uncertainty and related risks, and the use of available opportunities, thus increasing the potential for the company's value to appreciate.

Detailed information on the risk management system, its organizational structure, and key principles of risk management is available on NSD's web site in the Risk Management section.

## RISK PROFILE

The risk management system is designed to manage all types of financial and non-financial risks in NSD's business – namely credit, market, liquidity, systemic, operational, legal, regulatory, strategic, reputational, IT, information security, and business continuity risks.

The risk management cycle includes measures aimed at identifying, assessing, responding to, monitoring, and controlling NSD's risks.

The key tools designed to manage financial risks include:

1. Setting limits and other restrictions with respect to the risks taken.

2. Managing the assets and liabilities portfolio for the purpose of its optimization in terms of maturity and structure.

3. Setting aside reserves to cover the risks taken (potential losses).

4. Equity capital allocation between the risks taken.

The key tools designed to manage non-financial risks include:

1. *Investigation of risks and risk events* in order to identify their circumstances and to take corrective actions to mitigate the risks identified. This tool makes it possible to implement controls that prevent risks from occurring in the future.

2. *Risk and control self-assessment* through which NSD's departments identify and assess risks pertaining to their activities, and determine and assess the effectiveness of existing controls that mitigate the identified risks. This tool reveals the level of risk in the individual NSD departments, and in the company as a whole.

3. *Project risk management* aimed at identifying and assessing project risks and taking corrective measures that will reduce the probability of such risks and make it possible to complete the project within the necessary timeframe, without exceeding the project budget, and with the quality required.

4. *Product risk management* aimed at identifying, assessing, and responding to product risks, in order to develop products and services that are adequate to NSD's status and meet the regulators', clients', and other stakeholders' requirements.

5. *Key risk indicators*. The determination and monitoring of key risk indicators to determine whether thresholds have been exceeded and to monitor changes in the risk level.

## ACHIEVEMENTS IN RISK MANAGEMENT IN 2015

In order to develop a risk management system and to improve its risk management tools and practices, NSD took the following steps in 2015:

1. *Update of the risk management methodology*, which involved improvement of existing procedures and development of new ones. In particular, NSD updated and improved risk management processes for project and product risks, approved the Financial Recovery Plan, revised its approach to risk and control self-assessment, and regulated the risk-oriented approach to employee compensation.

2. *Improvement of the approach to collection and analysis of information on risk events*. In particular, steps were taken to enhance the performance of risk coordinators by developing their skills and increasing their engagement level. In addition to improved engagement, the quality of incoming information also improved, making it possible to respond to risk events in a timely fashion and so as to prevent their re-occurrence.

3. *Expansion of information sources for the company's list of risks*. In the reporting period, NSD conducted a risk and control self-assessment in accordance with the pre-approved plan and arranged for risk identification and assessment in all of the current projects. Information on the risks identified earlier, their level, and steps taken to respond to such risks is regularly updated and presented in the company's management accounts relating to risks.

4. *Implementation of independent monitoring of the level of IT services*. NSD, on a regular basis, assesses the quality of changes made to IT systems and monitors the performance of the Service Level Agreement. NSD developed an IT policy that sets out an approach for determining severity levels of key IT systems and for determining key parameters of IT services availability.

5. *Training measures aimed at maintaining the optimal level of risk culture and risk awareness*. In particular, throughout the year, NSD arranged trainings for new employees, as well as a number of hands-on trainings for risk coordinators and other persons involved in risk management.

6. *Development and implementation of approaches to the planning of financial recovery efforts*. In particular, NSD introduced a system for monitoring early warning

The operational audit conducted in 2015 in accordance with the ISAE 3402 (Type II) standard revealed not only whether controls were suitably designed to achieve specified control objectives, but also whether the controls were operating with sufficient effectiveness

- the description of controls relating to settlement, depository, clearing, and repository services provided over the period of 18 February 2015 to 18 August 2015 is fairly presented;
- the controls related to the control objectives stated are suitably designed to provide reasonable assurance that the control objectives can be achieved;
- the controls tested, along with the additional controls analyzed during the operational audit to provide reasonable assurance that the control objectives can be achieved, operated effectively during the period of 18 February 2015 to 18 August 2015.

Previously, during the period from 2012 to 2014, NSD underwent operational audits under the ISAE 3402 (Type I) standard that requires the auditor to express an opinion on whether the controls were suitably designed to achieve specified control objectives. The operational audit conducted in 2015 under the ISAE 3402 (Type II) standard had a greater scope: in addition to the analysis of whether the controls were suitably designed to achieve specified control objectives, the auditor analyzed whether the controls were operating with sufficient effectiveness during the period of 18 February 2015 to 18 August 2015. Thus, the ISAE 3402 (Type II) audit provides assurance not only of the controls design quality, but also that such controls are effectively implemented in the company's operations<sup>8</sup>.

PricewaterhouseCoopers assessed the maturity level of NSD's risk management system under the ISO 31000 and COSO ERM standards. The assessment involved an

analysis of the current practices and tools. The auditors noted that there was a significant progress in increasing the maturity level of the risk management processes and risk culture level, as compared to 2012. Strengths and areas for further improvement were identified. The recommendations made by the auditor have been taken into account in the Risk Management Development Strategy for the Period until 2020.

Thomas Murray, the specialist custody rating, risk management and research firm, maintained NSD's rating at AA- (with a 'Stable' outlook), which translates as 'Very Low Overall Risk'. The overall rating of 'AA-' reflects a weighted average of the eight risk components and relates to a very low risk exposure profile.

In addition, Thomas Murray assessed NSD for observance of the CPMI-IOSCO Principles for Financial Market Infrastructures and concluded that 10 principles were 'fully observed' and nine principles were 'broadly observed.' It did not identify any principles that were 'partly observed' or 'not observed.' As compared to the assessment made in 2014, the level of observance increased for four of the principles<sup>9</sup>.

In 2015, NSD renewed the blanket insurance contract with Ingosstrakh Insurance Company. The insurance policy covers policyholders' and third parties' (including, but not limited to, NSD's clients') losses. The coverage amount is USD 65 million.

## RISK MANAGEMENT DEVELOPMENT STRATEGY FOR THE PERIOD UNTIL 2020

Throughout 2015, NSD was working to devise its Risk Management Development Strategy. Steps were taken to identify the current maturity level of risk management, assess its effectiveness, and set goals and objectives for its development. The following was taken into

indicators, and updated the format and contents of financial risk reports.

To assess the maturity level and effectiveness of risk management, in 2015, the company was subjected to a number of independent audits. Such an approach provides an unbiased opinion as to whether the company as a whole – and its risk management system in particular – meet regulators' requirements and recommendations as set out in international guidelines and standards.

In the reporting year, NSD was subjected to an operational audit conducted by PricewaterhouseCoopers under the ISAE 3402 (Type II) standard. During the audit, the auditors analyzed the internal controls used by NSD when providing settlement, depository, clearing, and repository services. The principal conclusions made in the auditor's report are as follows:

<sup>8</sup> The full operational audit report is disclosed on NSD's web site.

<sup>9</sup> Information on NSD's observance of the CPMI-IOSCO Principles is disclosed on NSD's web site.

account in formulating the strategy: the implementation results of the Risk Management Development Strategy for 2014–2015; the independent assessment of the maturity level of risk management; the analysis of the recommendations set out in the industrial standards of risk management (ISO 31000, COSO ERM); the SWOT analysis; and the Moscow Exchange Group's Strategy for 2015–2020. In addition, particular attention was paid to the involvement of external stakeholders, such as key clients, counterparties, and the Bank of Russia.

The Risk Management Development Strategy for the Period until 2020 was approved by NSD's Executive and Supervisory Boards.

### Key Provisions of NSD's Risk Management Development Strategy

#### Strategic mission:

NSD's risk management system aims to promote sustainable development of the Russian financial market in accordance with international standards and is focused on effective risk management for both the Company and participants of the financial market infrastructure.

#### Strategic objectives:

1. Implementation of advanced risk management practices (ERM):

- aligning the work along with key stakeholders of the risk management system;
- building a transparent communications system and division of responsibilities between departments engaged in risk management; and
- participation in initiatives aimed at optimizing and standardizing risk management tools and practices used at the Group level.

2. Implementation of activities and services reducing the risks of financial market infrastructure participants:

- enhancement of protection against cyber threats;

- implementation of systemic risk reduction services (Corporate Information Center, securities lending services, STP services, etc.); and

- coordination of interaction with financial market participants in the development of business continuity.

3. Risk management development at the level of infrastructure:

- determination of the format of interaction with market participants and the regulator for coordination in the field of risk management;
- supporting the improvement of laws and regulations governing financial market infrastructure risk management processes; and
- promoting the introduction of advanced international standards and practices that contribute to risk management, including the Financial Crime Compliance Principles for Securities Custody and Settlement and CPMI-IOSCO.

#### PLANS FOR 2016

- Improve the approach to defining risk appetite and risk tolerance.
- Increase the level of risk management process automation.
- Expand sources of information for management accounts relating to risks, and provide prompt information to all stakeholders.
- Revise and update the risk map, and engage new experts to identify and assess risks.



## BUSINESS CONTINUITY

As a systemically important organization in the financial market and the central securities depository, NSD must pay particular attention to operational reliability and improvement of the company's business continuity management system (BCMS). According to the findings of an independent audit conducted by KPMG, the company has a high BCMS maturity level. In 2015, in the course of its activities, NSD's Business Continuity Service (BCS) focused on the implementation of the roadmap devised in line with the best international practices. In addition, NSD continued taking steps to prevent emergencies, updated the map of threats for the priority business areas, and assessed the business continuity risks.

Significant success was achieved in the development and testing of processes aimed at reducing the negative impact of software/hardware incidents and emergencies with the potential to adversely affect the company's performance. Apart from drafting new internal regulations and updating existing ones that govern incident response processes – including processes of communication with Moscow Exchange Group members, the Bank of Russia, and clients – NSD introduced an early warning system, and run staff trainings for total evacuation from the main site and the switching of critical functions to NSD's backup site that remains in operation every day. In 2015, there were nine tests of the feasibility of the Disaster Recovery Plan (DRP). The

tests showed that NSD would be capable of ensuring the recovery of its operations in the event of a large-scale technical failure.

Due attention was also paid to activities aimed at reducing potential negative consequences of man-made disasters. In particular, NSD tested all of the utility systems inside NSD's building, including the uninterrupted power supply system and fire safety system.

Apart from hands-on trainings and tests, the company's business continuity staff improved their skills with the help of interactive training programs and courses that involved individual tests of each employee.

Significant success was achieved in the development and testing of processes aimed at reducing the negative impact of software/hardware incidents and emergencies with the potential to adversely affect the company's performance



NSD conducted  
tests of the feasibility of  
the Disaster Recovery  
Plan (DRP) in 2015

9



## IT INFRASTRUCTURE DEVELOPMENT

### TECHNICAL SUPPORT OF CUSTOMERS

In 2015, the number of customer calls to NSD's Technical Support Service increased by 32% over 2014. The increase was due to the launch of new services by NSD, as well as to a greater use of the single-point-of-contact.

The percentage of problems resolved at the first point of contact reached 79%, a 7% increase against the previous year.

Since November 2015, NSD's customers have been able to assess the quality of the solution offered during each call-in. From the time that option was launched through to the end of the year, 96% of all customers said that they were satisfied with the way their problem was solved.

### IT PROCESS DEVELOPMENT

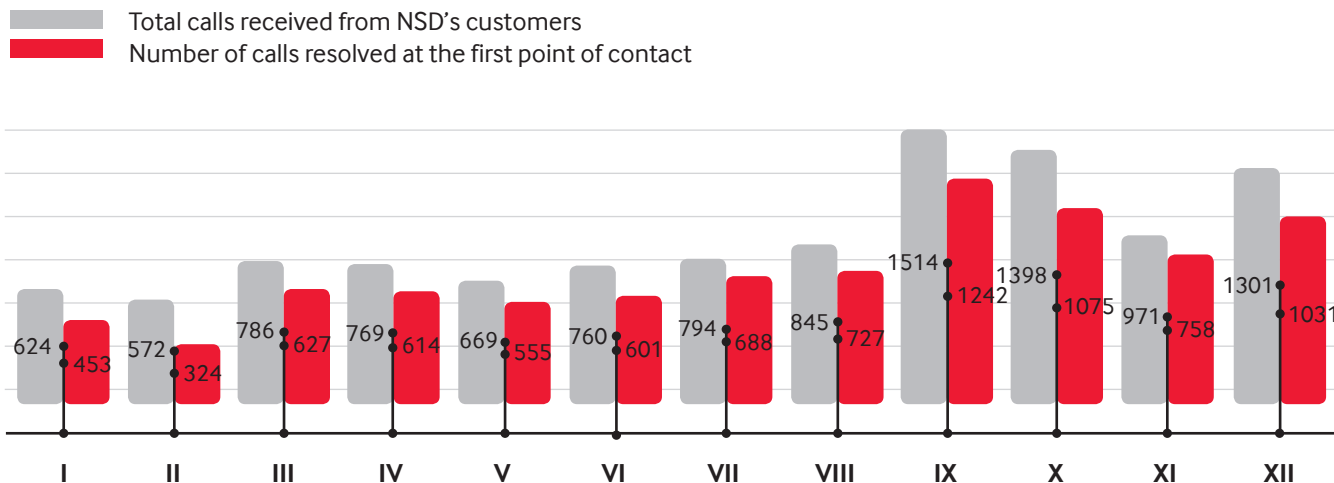
In 2015, NSD continued improving IT service management (ITSM) processes. In particular, NSD implemented

a process of IT asset and service configuration management. As part of the implementation, process rules were drafted, the process was automated, and the configuration management database (CMDB) was stocked with initial data, making it possible to automatically monitor the degree of hardware obsolescence, the adequacy of hardware resources, and also purchase planning processes.

As part of the Service Level Management, regular meetings were held throughout the year between IT and business units to assess performance under SLA agreements and to discuss changes in their parameters.

Throughout 2015, measures were implemented to improve existing services, such as change management, incident and service request management, and problem management. In particular, the change management process rules and automation tools were improved. This helped raise authorizing persons' awareness of proposed changes, expand the process

Number of customer calls resolved at the first point of contact



# 96%

of all NSD customers said that they were satisfied with the way their problem was solved in 2015

coverage to include infrastructure changes, and introduce the process of analyzing changes recorded by Moscow Exchange Group companies and that may potentially affect NSD.

### SWIFT CONNECTION SERVICES

In 2014, NSD – as one of the key organizers of the system of SWIFT connection via NSD's terminal that provides services to more than 50 banks – decided to voluntarily join the Shared Infrastructure Programme (SIP).

Throughout 2015, SWIFT conducted a thorough audit of the organizational and IT infrastructure that NSD uses to provide SWIFT shared connection services to clients. Following the audit, NSD received a Standard Operational Practice (SOP) certificate (one of the first in the CIS countries), thus demonstrating that NSD fully meets SWIFT requirements.

### DISASTER RECOVERY

In 2015, nine tests were run in accordance with the Disaster Recovery Plan that provides for the switching of critical IT systems to the backup data center. Regular tests made it possible to identify and deal with shortcomings, ensure that the staff is prepared to work in emergencies, and run tests involving more complicated scenarios.

### PROJECT ACTIVITIES

In 2015, the reengineering of NSD's IT processes made it possible to implement a large-scale program for updating the range of products and services that NSD offers its clients. The key resources required for IT development were committed to the corporate actions reform project. Thanks to this, in 2015, NSD launched a new method of providing clients with information on corporate actions, using ISO 15022 and ISO 20022 formats, as well as an e-proxy voting service. Another important activity performed as part of the project was the preparation for a transition on 1 July 2016 to completely new formats of data interchange between issuers and securities holders in connection with corporate action events. NSD secured availability of its IT systems for such a transition by the end of 2015.

Apart from the preparatory work for the corporate actions reform, the IT department was also actively involved in implementing new services in other areas of the company's business.

In particular, as part of the collateral management system development, a number of business processes were designed and introduced to service repo transactions in the inter-bank lending market.

With regard to depository operations, technical capabilities were implemented to allow for a batch matching of data fields and to enable clients to sign up for the electronic matching service.

SWIFT audited NSD's organizational and IT infrastructure in 2015, with the result that NSD became one of the first in the CIS to receive a Standard Operational Practice (SOP) certificate demonstrating that it fully meets SWIFT requirements



On 1 October 2015, NSD's Trade Repository began accepting mandatory reports on all types of derivative transactions.

### INNOVATIVE TECHNOLOGIES

The creation of Business Intelligence systems is one of the key areas for the application of innovative technologies at NSD. IT development in this area made it possible to design products that allow for direct access to operational data and the prompt generation of management accounts using an in-memory-database solution. The key advantages of such an approach are the simplicity and effectiveness it gives to the reporting processes. Within a short period

of time, NSD managed to design Business Intelligence systems that support the decision-making process in all business areas, at the level of front, middle, and back offices.

One of the promising solutions that emerged in 2015 was a distributed recording system based on the blockchain technology. NSD started actively researching this technology in order to understand its potential. An interdisciplinary working group was formed comprising representatives of the company's key business areas: risk management, legal services, and IT. The working group has identified and prioritized key business areas of potential blockchain application in the securities market infrastructure.

One of the promising solutions that emerged in 2015 was a distributed recording system based on the blockchain technology. NSD started actively researching this technology in order to understand its potential. A working group identified and prioritized key business areas of potential blockchain application in the securities market infrastructure



The system of SWIFT connection via NSD's terminal provides services to more than

**50**  
banks



## INTERNATIONAL COOPERATION

The global securities services industry does not stand still, but constantly grows, increasing its role in the financial market. The market, in turn, cannot grow without infrastructure development. Compliance with global standards, monitoring of the latest trends, and close cooperation with financial market infrastructure institutions in other countries – each of these activities is not ancillary any more, but a necessity. In the field of cooperation with the global community, NSD's key objective is to build an advanced settlement infrastructure that meets global standards and the challenges of the present time.

### INTEGRATION INTO THE GLOBAL FINANCIAL INFRASTRUCTURE

NSD has been working on building bilateral relationships and links in the global arena for many years now. Ever since NSD gained CSD status in 2012, its international activities have had a special nature that goes beyond the interests of only one company. In building relationships with financial market infrastructure institutions in various countries, NSD represents the entire Russian settlement infrastructure. In 2015, for the first time in its history, the Board of Directors of SWIFT, one of the largest communications services providers in the global financial market, was joined by a Russian representative: NSD's Executive Board Chairman Eddie Astanin. Prior to this move, the Russian SWIFT community, at the general meeting of ROSSWIFT Association, voted for the nomination of NSD's representative to the Board of Directors. The Board membership provides new opportunities both to ensure that Russian users' interests are duly taken into account in the course of SWIFT's development, and to promote SWIFT's new services and products for the benefit of the Russian financial market.

Asia and China in particular became an important region for NSD's development in 2015. The key milestone in building relationships with one of the largest financial markets in the world was the signing, in June 2015, of a Memorandum of Understanding with CCDC, China's

central securities depository that provides public debt securities services. The next step after the signing of the MoU was a visit by a Russian delegation to Beijing and Shanghai for negotiations with the Chinese regulator and market infrastructure institutions. That delegation included representatives of NSD, Moscow Exchange, the Bank of Russia, and Russian investment companies. Such cooperation is ultimately aimed at establishing direct access for investors from the two countries to the financial markets of China and Russia.

The Asian dimension of NSD's business is important, but not the only one. NSD seeks to maintain balance in its international efforts. Thus, in 2015, a memorandum of cooperation was signed with Central Securities Depository and Clearing House, Serbia's CSD, and Hellenic Central Securities Depository S.A. (ATHEXCSD), Greece's CSD, that strengthened the European dimension of NSD's business. Cooperation within the Association of Eurasian Central Securities Depositories (AECSD) is a strategic area of NSD's international activities. In 2015, efforts aimed at harmonizing and improving technologies of inter-depository cooperation began. In addition, the central securities depositories of India, Central Depository Services Limited (CDSL) and National Securities Depository Limited (NSDL), as well as Merkezi Kayit Kurulusu A.S. (MKK), Turkey's CSD, joined the AECSD this reporting year.

Asia, and China in particular, became an important region for NSD's development in 2015. The key milestone in building relationships with one of the largest financial markets in the world was the signing, in June 2015, of a Memorandum of Understanding with CCDC, China's central securities depository that provides public debt securities services

## COOPERATION WITH THE INTERNATIONAL COMMUNITY

The settlement infrastructure of the Russian securities market does not stand still and continuously grows: new services emerge, laws change, and new standards and formats are implemented. As the CSD, NSD makes a concerted effort to inform investors, professional market participants, and regulators across global financial centers of such developments.

NSD is an active participant of both international and Russian forums and conferences, such as the Network Management Conference, SIBOS, the Moscow Exchange Forum in Moscow, London, and New York, and the World Forum of CSDs. This was true for 2015 as well. Throughout the year, NSD arranged a number of its own conferences and workshops, as well as panel sessions during various events of its partners. The company's efforts in this area did not go unnoticed: NSD was recognized for 'Best communication with overseas investors and/or media' in the Corporate & Financial Awards 2015. The contest is hosted by Communicate Magazine, a monthly professional magazine covering corporate communications and Investor Relations.

**NSD was recognized for 'Best communication with overseas investors and/or media' in the 2015 Corporate & Financial Awards**

## NSD'S ACTIVITIES AS A NUMBERING AGENCY AND A PRE-LOU

NSD acts as the National Numbering Agency (NNA) for Russia and the Substitute Numbering Agency (SNA) for the CIS countries, and as such, assigns ISINs and CFIs to securities. As the NNA, NSD assigned 999 ISINs and CFIs to Russian financial instruments in 2015, while as the SNA, NSD assigned 236 ISINs and CFIs.

In addition, NSD is a globally recognized pre-LOU, due to which all pre-LEIs assigned by NSD must be accepted by regulators, market participants, and pre-LOUs in other countries. In 2015, NSD assigned 511 pre-LEIs and accepted eight pre-LEIs assigned by pre-LOUs in other countries.

## NSD'S MEMBERSHIP IN INTERNATIONAL ASSOCIATIONS AND OTHER ORGANIZATIONS

Membership in both domestic and international industry associations is essential as it enables NSD to adopt the best international practices and standards, share experiences, inform the professional community of developments in the financial industry, and ensure NSD's successful integration into global markets. NSD is a member of the following leading international organizations in the post-trade industry:

- World Forum of CSDs (WFC);
- European Central Securities Depository Association (ECSDA);
- Association of Eurasian Central Securities Depositories (AECSD);
- Association of National Numbering Agencies (ANNA);
- International Securities Services Association (ISSA);
- Russian National Securities Market Association (NSMA);
- Russian National SWIFT Association (ROSSWIFT); and
- SWIFT SCRL (Society for Worldwide Interbank Financial Telecommunication).

**INTERNATIONAL CONSULTING COMMITTEE**

Three years ago, NSD established the International Consulting Committee (ICC) as a body of external experts. The ICC members include representatives of the largest global custodians and investment banks, as well as infrastructure institutions. The ICC allows NSD to use international best practices for information sharing and improving Russian securities market infrastructure and services.

In 2015, the ICC held two meetings, at which ICC members discussed the current state and vital issues of the Russian market settlement infrastructure and formulated their recommendations on such issues as NSD's development strategy, corporate actions reform, development of settlement services, and other important matters.

The recommendations have provided the basis for further efforts by NSD staff to improve NSD's products, services and operational performance, and also to ensure that the Russian market infrastructure meets international standards.



NSD assigned

**999**

ISINs and CFIs to Russian financial instruments in 2015



# CORPORATE SOCIAL RESPONSIBILITY

In 2015, NSD continued its “Care for Heritage” charitable efforts in the following four major areas: assistance to children, promoting cultural and historical heritage, ecology, and support for sports. Based on the previous experience in the implementation of social projects and general trends of corporate charity development in Russia, NSD focused on providing systematic and long-term assistance.

The company’s social initiatives were recognized by experts: NSD was included in the authoritative ranking “Corporate Charity Leaders 2015” issued by Vedomosti newspaper and PricewaterhouseCoopers. There were more nominees last year than in 2014, but NSD managed to strengthen its position by moving up one spot to the 52<sup>nd</sup> position overall.

### ASSISTANCE TO CHILDREN

Thirty children received targeted assistance from NSD in 2015. Those charitable funds were used for medical treatment and rehabilitation, material aid to the needy, and the purchase of specialized equipment.

The cooperation between NSD and the “Danilovtsy” volunteer movement enabled volunteers to regularly visit children in Dmitry Rogachev Memorial Federal Clinical Research Center in Moscow and to arrange creative classes for them. Moreover, NSD supported a project of the Regional Nonprofit Organization “Miloserdie” (Mercy) for publishing the Oxford Textbook of Palliative Care for Children in Russia.

For 15 years now, NSD has been providing aid to the Udelnoe Specialized Children’s Home under its sponsorship. In 2015, NSD helped the Home renovate its dance and drama studios, repair equipment and pathways on its territory, and arrange trips to the Operetta Theater and an annual meeting in the NSD office on New Year’s Eve for its patients.

NSD also continued implementing its joint project with the charitable fund “Deti Nashi” (Our Children) aimed to organize a summer training camp for children.

The project’s main goal was to encourage children from orphanages who had achieved high academic results during the year to go on working just as actively in the future. Its second goal was to continue educational and adaptation programs by creating conditions for immersion training. In 2015, 18 children from four orphanages were selected. They went to the Jugendherberge Kretzschau recreation camp in Germany from 17 August through 29 August.

In addition, with the support of NSD, the charitable fund “Deti Nashi” held a series of classes at an orphanage in Kostroma to help those children receive vocational training according to their interests and inclinations.

### ENGAGEMENT OF COMPANY’S EMPLOYEES

Engagement of NSD’s staff in social projects has become an important part of NSD’s charitable efforts. In 2015, employees actively participated in the following initiatives held in the office:

- Box of Courage (a collection box for toys for children under the care of the “Podari Zhizn” (Gift of Life) Foundation);
- Donor’s Day (donating blood and money for children’s medical treatment);
- Ecological initiative for voluntary Saturday work (NSD employees cleaned and straightened up the territory of Bauman Garden in Moscow);
- Excursion of the pupils of the Udelnoe Specialized Children’s Home to the NSD office.

Moreover, at the end of the year, the NSD office hosted an exhibition of works by children under the care of the “Danilovtsy” volunteer movement. Information on the events was published on NSD’s corporate portal and its page on Facebook.

### CULTURAL AND HISTORICAL HERITAGE

For many years now, NSD has maintained close relations with the Cathedral of the Theophany in Elokhovo,

Moscow – one of the oldest and most beautiful churches in Russia. In 2015, NSD provided material aid for the cathedral’s renovation and restoration.

### ECOLOGICAL HERITAGE

In late 2015, following the ecological line of its charitable efforts, the company made a significant funding contribution to the “Wet Nose” stray pets care center that is under construction near Moscow. The center now has two blocks of enclosures for 40 dogs each. A fence and a gate were installed and other works were completed.

For the second consecutive year, NSD’s employees and their children participated in the ecological initiative for voluntary Saturday clean-up work in Bauman Garden near the company’s office.

### SPORTS HERITAGE

In 2015, NSD supported the Moscow State University of Geodetic Surveying and Cartography by allocating funds for the development of its athletic facilities.

Thanks to financial assistance from NSD, members of the Duet wheelchair athletic dance club were able to take part in the 2015 World Championship in Rome, where they won one bronze and two silver medals.



## HUMAN CAPITAL



### IMPROVEMENTS TO WORK WITH INTERNAL AND EXTERNAL CUSTOMERS

In a competitive world, no company can succeed without building long-term partnerships with customers. The strategy for continuous improvement of customer service applies to each NSD employee.

In 2015, NSD continued working under the project for customer service improvement. Drills for customer service staff were designed to help improve their skills in consulting customers and making presentations of NSD's products and services, as well as to enhance the quality of communications. Customer service standards were monitored on a regular basis.

The Net Promoter Score methodology measures the index of satisfaction of internal customers. Analysis of the NPS allows the company to promptly respond to the needs of an internal customer and flexibly change its interaction techniques. The index increased by more than 20 points over the year.

In 2015, a training program was developed for the IT staff. Its aim was to enhance the quality of communications with internal customers. Under the program, a series of trainings and business games was held, during which employees were honing their skills in reasoned negotiations aimed to achieve the best result for all stakeholders.

### INTERNAL DEVELOPMENT POTENTIAL

NSD conducted an employee engagement survey in late 2015. The previous survey was performed in 2012. Since then, the engagement index increased by six points, reaching 74%. This corresponds to the level of major global financial companies in terms of staff performance quality and efficiency.

Working with talented and promising employees is one of the priorities of the company's HR policy. In 2015, NSD launched a corporate program aimed at developing employees' leadership skills in order to help them implement the most ambitious business ideas. The training was based

on the practices of the best western business schools and combined both theory and practice. The program participants were offered a number of significant projects, six of which will be implemented in 2016.

Last year, 68% of employees received training, double the number in 2014.

### PROMOTING NSD'S IMAGE AS AN ATTRACTIVE EMPLOYER

In the reporting year, the "Working at NSD" HR portal was launched to help maintain contact with potential applicants and attract the attention of young professionals.

A page of the Moscow Exchange Group was created on the inplacers.ru portal, dedicated to the corporate culture of Russian and foreign companies. On that page, future applicants can "pop in" to the NSD office and find out more about the company, its culture, and key values.

In 2015, NSD actively participated in job fairs and career days held in Moscow's leading universities, and also conducted workshops. As a result, 19 students majoring in economics received training in different NSD departments.



The indicator of customer satisfaction with internal services rose by

**20**  
points in 2015

Working with talented and promising employees is one of the priorities of the company's HR policy



## GENERAL INFORMATION ON NSD'S ACTIVITIES

## INFORMATION DISCLOSURE

NSD's Information Disclosure Rules approved by the Bank of Russia's Financial Markets Service (Order No. 13-498/pz-i dated 13 November 2013) set out the procedure for information disclosure, i.e., provision of the following information to an indefinite or unlimited number of concerned parties:

- information to be disclosed by NSD in accordance with the Russian statutory requirements; and
- information disclosed by NSD on its own accord or upon request by a party concerned.

The Rules establish that NSD upholds the principle of information transparency to shareholders, clients, business partners, counterparties, government authorities, NSD's employees and other concerned parties, in accordance with the following rules:

- information disclosure shall be in line with NSD's and Moscow Exchange Group's development strategy (goals and objectives);
- information to be disclosed shall be accurate and accessible;
- information shall be disclosed in a timely fashion and on a regular and non-discriminatory basis;
- a reasonable balance shall be maintained between NSD's transparency and business interests of NSD and of the Moscow Exchange Group as a whole;
- NSD shall comply with Russian laws and regulations concerning trade and banking secrets and insider information, as well as NSD's own internal regulations governing the handling of confidential information;
- professional ethics standards shall be followed; and
- communication channels shall allow for unrestrained, easy and low-cost access to information for all parties concerned.

To ensure compliance with the Rules, the Chairman of the Executive Board approved the Procedure for Preparation, Verification and Approval of Information to Be Disclosed by NSD as the Central Securities Depository. The Procedure sets out a list of information (data, facts,

documents, and other informational materials) to be disclosed by NSD and designates employees responsible for the preparation, verification, and approval of the information to be disclosed.

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

## 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 members of the Internal Audit Commission are<sup>10</sup>:

1. Olga Gordienko, Chief Accountant, Moscow Exchange;
2. Anna Ivenkova, Head of International Reporting Department, Moscow Exchange;
3. Vladimir Sukhachev, Head of Internal Audit Service, Moscow Exchange.

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

### External Auditors and Material Aspects of Interaction with External Auditors

At its meeting in 2015, the Audit Committee decided to propose that NSD's Supervisory Board recommend that the annual General Meeting of Shareholders approve the appointment of Ernst & Young Vneshaudit CJSC as

**NSD upholds the principle of information transparency to shareholders, clients, business partners, counterparties, government authorities, NSD's employees and other concerned parties**

<sup>10</sup> As of 31 December 2015.

auditors for NSD until the annual General Meeting of Shareholders in 2016.

On 26 May 2015, the annual General Meeting of Shareholders approved the appointment of Ernst & Young

Vneshaudit CJSC to audit the company's RAS and IFRS financial statements until the annual General Meeting of Shareholders in 2016.

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 applicable Russian laws

Full name	Ernst & Young Vneshaudit Closed Joint-Stock Company <sup>11</sup>
Short name	Ernst & Young Vneshaudit CJSC
Registered office	77 Sadovnicheskaya Naberezhnaya, Bldg. 1, Moscow 115035
Telephone and fax numbers	Tel: (495) 755-97-00, Fax: (495) 755-97-01
E-mail	moscow@ru.ey.com
Full name and address of the self-regulatory organization of auditors in which the auditor has (had) membership	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 Syromyatnicheskij Pereulok, Bldg. 3, Moscow 105120
Financial year for which the auditor conducted an independent audit of the statutory accounting books and financial statements under Russian laws and the IFRS	2011 to 2015

<sup>11</sup> Data is current as of 31 December 2015. In February 2016, the audit organization was reorganized as Ernst & Young Vneshaudit Limited Liability Company and included in the master copy of the Register of Auditors and Audit Organizations maintained by Non-Profit Partnership "Audit Chamber of Russia", under the main registration number of 11601006996.

Ernst & Young Vneshaudit CJSC is authorized under Russian laws to conduct independent audits of NSD's accounting system, financial statements (accounts), and tax reports, 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 the Moscow Exchange'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 applicable Russian laws. Validity means the degree of accuracy of the data contained in the financial statements and whether it enables a user of such financial statements to draw conclusions, on the basis of such data, regarding NSD's performance results, financial position, and assets, and to 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, and tax filings for the first eight months of a financial year;
- Phase 2: audit of the state of accounting and controls, account balances, disclosed financial statements and tax filings for 12 months of the 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 a 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, international standards on auditing, as well as Russian federal standards on auditing. 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 Russian law;
- 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; and
- inspect 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 notify 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.

The auditor determines, at its own discretion, the forms and methods of the audit based on the requirements imposed by the applicable Russian

**In the course of an audit, NSD undertakes to 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**

**In compliance with the requirements set forth by Russian laws and the Bank of Russia's regulations, NSD implements internal controls that are appropriate to the nature and scope of NSD's business and risk profile**

laws and regulations, subject to the specific terms and conditions of the Audit Services Agreement.

In the course of an audit, NSD undertakes to 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.

#### **INTERNAL CONTROL**

In compliance with the requirements set forth by Russian laws and the Bank of Russia's regulations, NSD implements internal controls that are appropriate to the nature and scope of NSD's business (as the central securities depository and anon-banking credit organization, professional securities market participant, clearing house, and trade repository), and to NSD's risk profile.

Internal controls are implemented to ensure that NSD pursues the following objectives:

- ensure that NSD's financial and commercial performance in the course of banking and any other operations and transactions are efficient and effective, and ensure the efficient management of assets and liabilities (including protection of assets) as well as efficient risk management;

- ensure that NSD's financial statements, accounting, statistical, and other reports (both internal and external) are accurate, complete and objective, and are prepared and submitted in a timely fashion, and ensure that information security (safeguarding the company's interests and objectives) in the information field is treated as a totality of information, information infrastructure, parties involved in information collection, generation, distribution, and use, and ensure that a system governing relationships that arise in the course of such processes is in place;

- ensuring compliance with laws and regulations, self-regulatory organizations' standards, and NSD's foundation and internal regulatory documents; and

- preventing NSD's or its employees' involvement in illegal activities (including money laundering and terrorist financing), and ensuring that relevant information is reported to state authorities and the Bank of Russia in a timely fashion in accordance with Russian law.

NSD's Supervisory Board, Executive Board, and Executive Board Chairman are actively involved in managing the internal control system.

NSD followed a risk-oriented approach in implementing internal controls in 2015.

At NSD, two departments are responsible for internal control on a continuous basis: the Internal Audit Department and the Internal Control Department.

The Internal Audit Department is responsible for assessing the reliability and effectiveness of internal controls, risk management, corporate governance, and business processes at NSD, providing NSD's management bodies with information upon completion of internal audits, and giving advice on matters relating to internal controls.

The Internal Control Department performs ongoing control of NSD's activities, including activities by the CSD's controller, the professional securities market participants' controller, the clearing house's controller, the AML/CTF officer, and the insider trading compliance officer.

Active steps were taken in 2015 to develop the company's compliance function as part of a policy aimed at preventing conflicts of interest, fighting corruption, and complying with foreign jurisdictions' requirements relating to tax risks (FATCA).

Significant efforts were made by the Internal Control Department, strictly in compliance with Russian laws, to prevent money laundering and terrorist financing.

This multi-level internal control system enables NSD to efficiently identify, manage, and mitigate risks in all areas of its business.

## INFORMATION SECURITY

The work to ensure information security (IS) at NSD is organized in accordance with Russian laws, the package of standardization documents issued by the Bank of Russia (entitled "Ensuring Information Security of Organizations that are Part of the Banking System of the Russian Federation") ("BR ISBS Package"), NSD's Information Security Policy, and the best practices and international standards.

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 Division is entrusted with creating an effective system to manage IS risks and conducting work designed to identify and counter any possible threats.

In accordance with the requirements set out in the BR ISBS Package, the Information Security Division is actively involved in analyzing business processes, developing terms of reference, implementing hardware and software, and performing an 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.

In 2015, NSD was audited by an independent auditor for compliance with the requirements set out in the

BR ISBS Package and Regulations No. 382-P. Thomas Murray also inspected information security processes while assessing NSD's observance of the Principles for Financial Market Infrastructures.

To maintain and raise its IS level, NSD worked to improve information protection tools used in the course of operating automated systems.

Specific attention was paid to such aspects of cybersecurity as attacks on public Internet resources and information wars.

In the reporting year, a project for software vulnerability testing was successfully implemented. Those improvements enabled NSD to raise its IS level in general, and the security of its key IT systems in particular, and also to significantly reduce regulatory and operational risks arising from the use of computer hardware.

Controls are in place to prevent unauthorized access to confidential information. In addition, NSD has expanded the scope of its IS arrangements, tightened control over the activities of information resource users, and improved its response to the discovery of shortcomings.

Following the completion of audits, reports are prepared and submitted to the relevant individuals. Such reports constitute the basis for making changes to the controls aimed at protecting confidential information.

The Information Security Division continuously improves the methodological support of NSD's operations. In particular, the Information Security Division regularly analyzes legislative and regulatory changes, providing

**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 basis by which NSD can make necessary amendments to its internal regulations.

### **PREVENTING NSD'S INVOLVEMENT IN UNLAWFUL ACTIVITIES**

#### **Combating Money Laundering and Terrorist Financing**

In 2015, NSD operated in full compliance with Russian Federation laws on anti-money laundering and combating terrorist financing ("AML/CTF").

The on-going analysis of our clients' activities and transactions is intended to mitigate the risks relating to money laundering and terrorist financing and to increase the effectiveness of NSD's internal AML/CTF controls. In particular, if signs appear that clients are engaged in

suspicious activities, NSD meets with such clients, takes steps to terminate their remote access to NSD's services, applies restrictive tariffs, or takes other measures in accordance with Russian Federation laws and the Bank of Russia's recommendations.

In 2015, to increase the effectiveness of the regulatory reporting process, efforts were made to automate AML/CTF-related processes to comply with the relevant requirements imposed by the laws and the Bank of Russia's regulations.

**Controls are in place to prevent unauthorized access to confidential information**



## 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 <sup>12</sup>	12 Spartakovskaya Street, 105066 Moscow, Russian Federation	99.998
Stock Company Saint-Petersburg Currency Exchange, SPCEX SC	12/23 Sadovaya Street, 191023 St. Petersburg, Russian Federation	2.005
SWIFT SCRL (Society for Worldwide Interbank Financial Telecommunication)	Avenue Adèle 1, 1310 La Hulpe, Belgium	0.005

## MATERIAL EVENTS AFTER THE REPORTING DATE

- Launch of a conditional cash transfer service on a 'payment versus payment' (PVP-1) basis to be applied for cross-currency settlements between clients.
- Confirmation of the CSD rating at AA- with a 'Stable' outlook.



The CSD has received an

**AA-**

rating, indicating a  
'Stable' outlook

<sup>12</sup> Until 16 October 2015.



# FINANCIAL STATEMENTS

**BALANCE SHEET**  
**AS OF 1 JANUARY 2016, RUB THOUSANDS**

No.	Item	At the reporting date	At the beginning of the reporting year
<b>I. ASSETS</b>			
1	Cash	4,757	5,801
2	Amounts due from the Central Bank of the Russian Federation	18,071,735	34,782,047
2.1	Obligatory reserves	0	0
3	Amounts due from credit institutions	95,512,431	87,623,388
4	Financial assets at fair value through profit or loss	6,183,563	6,251,671
5	Net loans receivable	8,688,378	23,143,998
6	Net investments in securities and other financial assets available for sale	9,233	1,109,909
6.1	Investments in subsidiaries and associates	0	1,102,592
7	Net investments in securities held to maturity	0	0
8	Current tax prepayments	381,126	14,426
9	Deferred tax asset	79,254	116,699

10	Fixed assets, intangible assets and inventories	2,897,199	2,842,104
11	Other assets	1,341,389	1,104,797
12	Total assets	133,169,065	156,994,840
<b>II. LIABILITIES</b>			
13	Loans, deposits and other amounts due to the Central Bank of the Russian Federation	106	111
14	Amounts due to credit institutions	106,353,470	127,351,296
15	Amounts due to customers other than credit institutions	7,659,458	11,518,637
15.1	Deposits of (amounts due to) individuals, including individual entrepreneurs	0	0
16	Financial liabilities at fair value through profit or loss	0	0
17	Debt obligations issued	0	0
18	Current tax payable	16,042	27,440
19	Deferred tax liability	0	0
20	Other liabilities	6,836,699	7,015,915
21	Allowances for potential losses on credit-related contingent liabilities, other potential losses and transactions with offshore residents	40	2
22	Total liabilities	120,865,815	145,913,401

III. EQUITY			
23	Shareholders' (participants') equity	1,180,675	1,180,675
24	Treasury shares	0	0
25	Share premium	0	0
26	Reserve fund	177,101	177,101
27	Fair value revaluation of securities available for sale decreased by deferred tax liability (increased by deferred tax asset)	0	0
28	Revaluation of fixed assets decreased by deferred tax liability	0	0
29	Retained earnings (losses) of prior years	6,333,728	6,333,728
30	Unutilized profit (loss) for the reporting period	4,611,746	3,389,935
31	Total equity	12,303,250	11,081,439
IV. OFF-BALANCE SHEET LIABILITIES			
32	Irrevocable liabilities of credit institution	0	0
33	Guarantees and sureties issued by credit institution	0	0
34	Non-credit related contingent liabilities	0	0

**STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE YEAR 2015, RUB THOUSANDS**

No.	Item	For the reporting period	For the corresponding period of the prior year
1	Total interest income, including from:	3,225,236	2,274,866
1.1	Placements with credit institutions	2,586,087	1,311,923
1.2	Loans issued to customers other than credit institutions	0	0
1.3	Finance lease services	0	0
1.4	Investments in securities	639,149	962,943
2	Total interest expense, including on:	0	0
2.1	Funds raised from credit institutions	0	0
2.2	Funds raised from customers other than credit institutions	0	0
2.3	Debt obligations issued	0	0
3	Net interest income (negative interest margin)	3,225,236	2,274,866
4	Total change in allowance for potential losses on loans receivable and similar debt, amounts placed on correspondent accounts, and accrued interest income, including:	13	–2

4.1	Change in allowance for potential losses on accrued interest income	0	0
5	Net interest income (negative interest margin) after allowance for potential losses	3,225,249	2,274,864
6	Net gains from financial assets at fair value through profit or loss	228,145	–531,617
7	Net gains from securities available for sale	–195,984	0
8	Net gains from securities held to maturity	0	0
9	Net gains from dealing in foreign currencies	282,591	–5,907,397
10	Net gains from foreign currency translation	626,915	7,299,484
11	Gains from equity interests in other legal entities	484,576	0
12	Fee and commission income	3,827,633	3,245,552
13	Fee and commission expense	223,767	137,372
14	Change in allowance for potential losses on securities available for sale	0	0
15	Change in allowance for potential losses on securities held to maturity	0	0
16	Change in allowance for other losses	–11,298	–6,934
17	Other operating income	222,961	109,281
18	Net income (expense)	8,467,021	6,345,861
19	Operating expenses	2,619,761	2,148,343

20	Profit (loss) before tax	5,847,260	4,197,518
21	Tax refund (expense) <sup>13</sup>	1,235,514	807,583
22	Profit (loss) after tax	4,611,746	3,389,935
23	Total distributions of profit after tax, including:	0	0
23.1	Distributions among shareholders (participants) as dividends	0	0
23.2	Allocations to reserve fund	0	0
24	Unutilized profit (loss) for the reporting period	4,611,746	3,389,935

The full versions of the Financial Statements and Auditors' Report are published on NSD's website.

<sup>13</sup> In accordance with the procedure for preparation of the statement of financial performance approved by the Bank of Russia, positive amount in the line stands for the tax expense.





**NATIONAL  
SETTLEMENT  
DEPOSITORY**  
MOSCOW EXCHANGE GROUP

#### **CONTACT DETAILS**

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