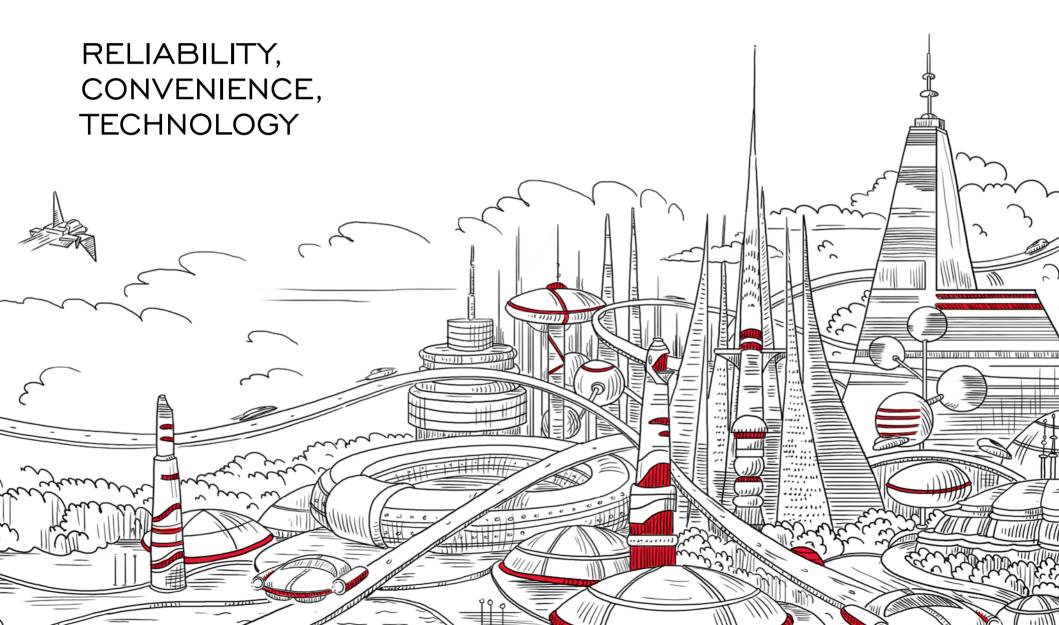


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Address by the Chairperson of the Supervisory Board

Dear Colleagues,

As one of the leading financial institutions in Russia, NSD is inevitably faced with issues of its further development strategy, which is the result of the company actively expanding the range of its services, launching new projects, improving the effectiveness of its business processes, and implementing best practices and state-of-the-art technology. In 2016, building a development strategy was one of the key objectives pursued by NSD, along with maintaining operational reliability and rolling out new processes and procedures.

In discussing NSD's strategy, the Supervisory Board seeks to act in the best interests of the company's clients and shareholders and to take well-informed and transparent decisions that meet the needs of all market participant categories, always bearing in mind the high expectations the market has of NSD. At the same time, increasingly stringent requirements, including new ones, are imposed on the company by the regulators, and we have to do our best to meet those requirements.

Foreign experts serving on the Supervisory Board contribute to building an appropriate development strategy of the central securities depository. In particular, they assist the Supervisory Board in taking decisions with due regard to global trends and expertise, thus helping NSD integrate into the global infrastructure.



Throughout the reporting year, NSD worked on 39 projects, while acting as Central Securities Depository, systemically important Trade Repository, nationally important Payment System, and Corporate Information Center.

The domestic post-trade infrastructure proved its reliability in the course of the issuance by the Russian Ministry of Finance of Eurobonds in 2016. The settlement component of the offering was fully supported by NSD and has received high accolades from the Ministry. The pace of the market's development requires that NSD use high technology in its business processes, the pursuit of which has helped the central securities depository implement corporate actions reform — its key project of the last two years. Without actively implementing new technology, it would have been impossible to launch the e-proxy voting service, a solution already tested by professional market participants in 2016. The new e-voting service set to be tested in 2017 is also based on that new technology. It should also be noted that client demand for NSD's information services in the reporting year showed impressive growth rates.

Steady and sustainable development is possible only if the company's development strategy covers, in detail, such matters as corporate governance, service and product diversification, pricing policy, and risk management. All of those matters were discussed at Supervisory Board meetings in 2016.

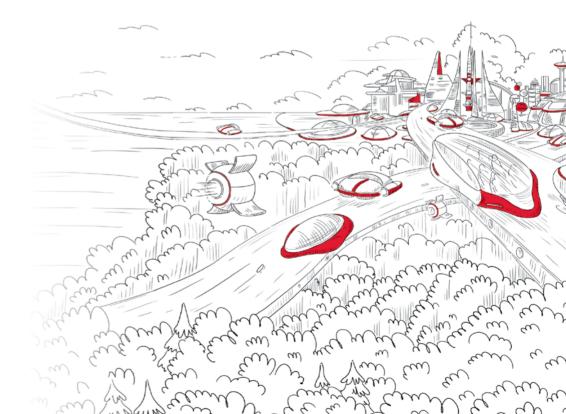
And, sure enough, particular attention needs to be paid to the implementation of the company's priority projects. That is why NSD's management bodies make every effort to enhance the quality of services, to launch new ones, and to improve customer satisfaction. The priorities set by the Supervisory Board for 2017 include creation and development of user-friendly interfaces for connecting to NSD's IT systems, and development of the e-voting technology, settlement services, collateral management system, and Corporate Information Center's technological platform. By building resilient and failure-free IT infrastructure, the company seeks to improve its operational reliability.

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 wellcoordinated and professional work.

Ducue,

BELLA ZLATKIS

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



Address by the Chairperson of the Executive Board

Dear Shareholders, Partners, and Colleagues,

2016 was a challenging year for the whole financial industry, with financial institutions needing to address a number of strategic issues, namely: which of their areas of business need to be focused on, which parts of their strategies have to be fine-tuned, and how their business models are to be adjusted. In 2016, NSD, as the central part of the Russian market post-trade infrastructure, was focused on three aspects vital for our business: reliability, convenience of our products and services, and innovations.

Reliability and convenience have underpinned the development of each and every key segment of NSD's business: CSD, Payment System, Trade Repository, Corporate Information Center, and Collateral Management System. The reliability and convenience of NSD's infrastructure was tested in 2016 by the issuance by the Russian Ministry of Finance of Eurobonds worth USD 3 billion. As the head securities depository, NSD fully supported the recordkeeping and settlement components of that landmark offering, which, for the first time in the history of the Russian financial market, used the domestic infrastructure that proved its effectiveness and technological integration with the largest global financial institutions.

Reliability and convenience have been an absolute priority for NSD in implementing the large-scale corporate actions Reliability and convenience are the key factors that shaped NSD's efforts to design new technology solutions

reform in the Russian market, helping the Moscow Exchange Group strengthen its positions in the national economy. In 2016, we supported more than 3,200 general meetings of shareholders through the use of the ISO 20022-based e-proxy voting technology. Also, NSD has completed the main development phase of the e-voting service designed to enable end investors to participate in corporate action events through electronic voting. In spring 2017, the new service will be tested for the first time, in the midst of the season of general meetings.

Reliability and convenience are the key factors that shaped NSD's efforts to design new technology solutions across the strategic development areas in 2016. These factors played the key role in shaping the 'Repository 2.0.' project that set industry-specific standards in the Russian financial market,



TOTAL VOLUME OF EUROBONDS THE FINANCE MINISTRY PLACED WITH NSD IN 2016 and also laid the foundation for the development of NSD's Collateral Management System, participants of which, in 2016, were offered an opportunity to make repo transactions in clearing participation certificates. This has made Moscow Exchange Group's services even more convenient to use. The same factors have driven the launch of a new cross-currency settlement service — money transfers on a 'payment versus payment' (PVP) basis. To ensure the reliability and convenience of information services we provide to financial market participants, we have launched the process of migrating NSD's Corporate Information Center to a new IT platform (nsddata.ru) and established NSD's Valuation Center.

Being at the heart of the post-trade infrastructure, as part of the Moscow Exchange Group's financial infrastructure deeply integrated into the global financial market, we fully realize that the future of reliable and convenient services for our clients is directly connected with technological challenges. In 2016, in response to new cyber threats emerging, we ensured the maximum possible protection to our IT systems, thanks to which we were awarded the SWIFT Premier Status enjoyed now by only 14 market infrastructure companies across the globe. We have also joined Strate, NASDAQ, SIX and other leaders of the global post-trade industry in proposing an initiative to establish a consortium of central securities depositories for designing blockchain-based solutions. At the early stage, we will focus on designing remote voting solutions, seeking to offer market participants enhanced reliability and convenience when it comes to participating in corporate action events.

The objectives of enhancing reliability, making existing products and services more convenient, and creating new ones will lie at the root of the ambitious plans set for each

of NSD's business segments for 2017. In particular, NSD will launch the Centralized UIT Unit Record Keeping System that will allow brokers and nominee holders to use it as a single entry point to purchase, redeem, and exchange units of UITs administered by management companies that signed up for NSD's Electronic Data Interchange System. In addition, NSD is set to launch OTC repo services that will complement the stock-exchange services offered by the Moscow Exchange Group, thus extending the range of the Group's services in the financial market. NSD will also continue its efforts to develop settlement solutions, including instruction prioritization, back-to-back settlements, central bank money settlement, etc. Brand new products and services will be offered to the market by the Corporate Information Center and the Valuation Center, and corporate action-related solutions are expected to break new ground.

I strongly believe that our focus on the reliability, innovativeness, and convenience of our IT services — that helped us address a range of challenges in 2016 — will contribute to the qualitative growth of both the Moscow Exchange Group and the Russian financial market infrastructure as a whole, and yield impressive results for our shareholders, clients, and all global players operating in the Russian capital market.

Actor aner J.B.

EDDIE ASTANIN Chairman of the Executive Board, NSD





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EDDIE ASTANIN Chairman of the Executive Board



IT Director



MARIA KRASNOVA Deputy Chairman of the Executive Board

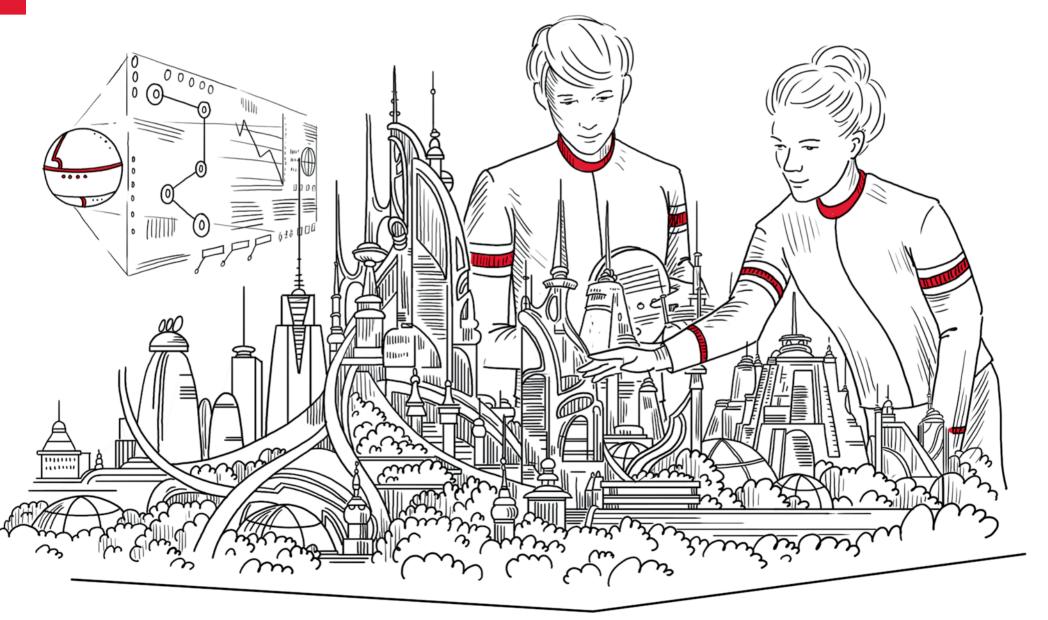
ANDREY SHLYAPPO

Deputy Chairman of the Executive Board, Executive Board Member

IRINA VEREMEENKO

Chief Accountant, Director of Accounting and Reporting Department

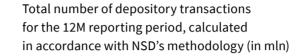
NSD IN 2016



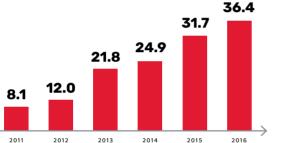
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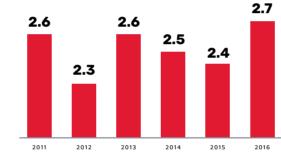
At the heart of the domestic financial market

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

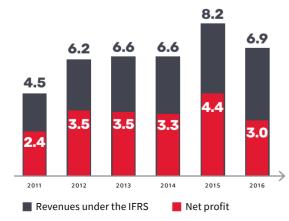


Total value of depository transactions for the 12M reporting period, calculated in accordance with NSD's methodology (RUB trillion)



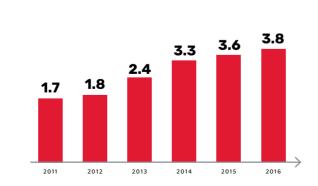


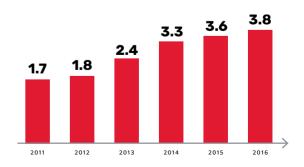
Total net profits and revenues under the IFRS for the 12M reporting period (RUB billion)



Total fee revenues for the 12M reporting period (management accounts) (RUB billion)

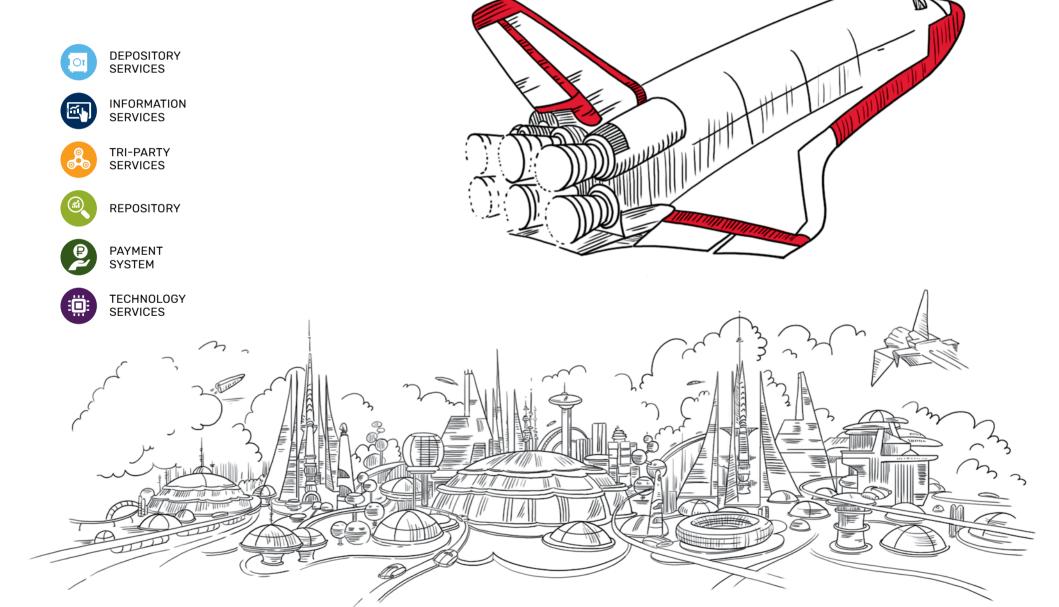






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PERFORMANCE IN THE KEY AREAS OF BUSINESS



Reliability and Convenience of CSD Technologies

By the end of 2016, the value of securities in custody reached RUB 36.4 trillion, which is 15% more than in 2015 (RUB 31.7 trillion). The number of securities issues in custody at NSD increased by one-third, up from 9,200 in 2015 to 11,900 in 2016, while the number of foreign securities issues almost doubled, from 2,700 in 2015 to 5,100.

The value of Federal Loan Bond (OFZ) balances in foreign nominee accounts reached RUB 1.5 trillion by the end of the reporting year, which represents a 50% increase against 2015 (RUB 1 trillion).

In 2016, the value of corporate and sub-federal bond issues accepted by NSD for servicing surged 70% against 2015 to reach RUB 5 trillion.

Cooperation with Issuers

In 2016, NSD supported IPOs of three stock issues on the Moscow Exchange and accepted 11 certificates of Federal Loan Bonds (OFZ) with total nominal values of RUB 1 trillion and USD 3 billion respectively.

The year 2016 saw the offering of 362 issues of corporate and sub-federal bonds, six of which were denominated in foreign currencies. The total nominal value of the bonds issued was RUB 4.61 trillion, of which the foreign currency-denominated bonds amounted to RUB 102.5 billion (USD 1.6 billion).¹ As many as 55 bond issuers entered the market in 2016 for the first time. A total of 114 general meetings of bondholders of 45 is-

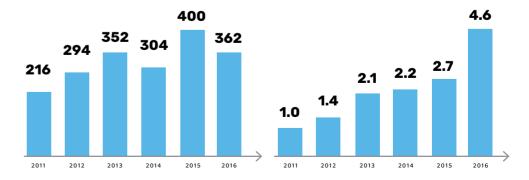
Settlement Services

As compared to 2015, the number of clearing instructions executed by NSD in 2016 increased by 200,000 (+22%). The volume of transactions surged RUB 2 trillion or 80% against 2015. In the reporting year, clearing participants submitted instructions in such currencies as USD, RUB, GBP, EUR, and CHF.

In October 2016, clients had the opportunity to boost OTC settlement efficiency with the use of the 'delivery versus payment' (DVP) settlement service involving allocation of securities. The new service improves the

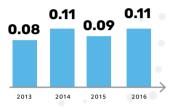
1 At the exchange rate in effect on the issuance date.

Total number of corporate and subfederal 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 (RUB trillion)



OANNUAL REPORT OF NSD 2016

Number of clearing transactions (DVP) (million)



Value of clearing transactions (DVP) (RUB trillion) 4.5 2.2 2.5 1.7 2.5 2.5 2.5 2.5 2.5 2.5



DEPOSITORY SERVICES



effectiveness of DVP settlements in the OTC market and allows to ensure timely delivery of assets to securities accounts intended for OTC settlements upon completion of settlements in the securities market operated by the Moscow Exchange.

In 2016, NSD continued working on the project for the implementation of instruction prioritization and linked transaction services at NSD. The instruction prioritization 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 linked transactions service will give market participants the opportunity to segregate assets by creating a pool of linked instructions for delivery and receipt of securities on a FOP or DVP basis.

The service will improve the effectiveness of settlements for clients and offer the opportunity to reserve cash funds or securities for particular trades. It also provides for settling instructions using the managed back-to-back solution that involves the netting of parties' liabilities as part of a global pool of instructions. This makes it possible to settle instructions that would have been impossible to settle separately due to the non-availability of assets required for settlement. The project is slated for launch in 2017.

Denis Buryakov,

Managing Director for Depository Operations

Eurobond Issuance by the Ministry of Finance of Russia

The highlight of 2016 was the successful issuance by the Russian Ministry of Finance of Eurobonds worth USD 3 billion in May and September. International and Russian investors were given the opportunity to take part in the issuance through the infrastructure of NSD as the head CSD of the issuance. NSD also acted as fiscal agent, and paying agent. Thus, NSD demonstrated that its technology and services are adequate to meet issuers' and investors' high standards and requirements. As planned by the issuer, the bulk of the Eurobonds were purchased by foreign investors. Following the issuance, the Ministry of Finance evaluated its use of the domestic infrastructure highly and stated that it would use it again in the future.

Corporate Actions Processing

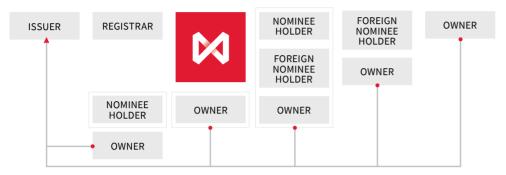
The year 2016 marked a turning point in the corporate actions reform. On 1 July, the new provisions of Federal Laws No. 39-FZ dated 22 April 1996 "On the Securities Market" and No. 208-FZ dated 26 December 1995 "On Joint-Stock Companies" took effect.

The reform has substantially modified the procedure for security holders' participation in such corporate actions as:

 the preemptive right to purchase shares (Article 40 of the Federal Law "On Joint-Stock Companies");

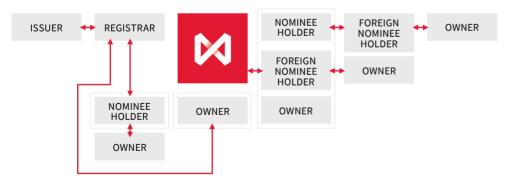
- the acquisition of shares by the issuing company (Article 72 of the Federal Law "On Joint-Stock Companies");
- share repurchase by the issuing company at the request of shareholders (Article 75 of the Federal Law "On Joint-Stock Companies");
- voluntary tender offers to purchase more than 30% of shares in the share capital of a public company (Article 84.1 of the Federal Law "On Joint-Stock Companies");
- mandatory tender offers to purchase shares in the share capital of a public company, or other securities convertible into shares in a public company (Article 84.2 of the Federal Law "On Joint-Stock Companies"); and
- the purchase of shares in the share capital of a public company by the shareholder who has acquired more than 95% of the shares (Article 84.8 of the Federal Law "On Joint-Stock Companies").

The Finance Ministry's issuance of USD 3 billion in Eurobonds was the highlight of 2016. As the head CSD of the issuance, NSD demonstrated that its technology and services meet issuers' and investors' high standards and requirements. The Ministry of Finance evaluated its use of the domestic infrastructure highly and stated that it would use it again in the future



Corporate action participation – BEFORE

- Securities depositories and registrars are not involved in the process of interaction between the issuer and shareholders
- No continuous, automated information transmission / corporate action processing between market participants
- Paperwork-intensive processes cause problems for Russian and foreign investors in exercising their rights



Corporate action participation - NOW

Information on corporate actions is disclosed through securities depositories and registrars

- All corporate actions are processed in a centralized manner
- No paperwork is required for interaction between the CSD and market participants
- The CSD ensures that sufficient funds are available to pay clients upon a (re)purchase of securities by the issuer/shareholder

As part of the reform, NSD has developed and implemented the technology of straight-through processing of information, which is based on international standards, principles, and ISO 20022 and ISO 15022 standards.

Beginning 1 July 2016, clients have used the new technology to conduct 101 (re)purchases of securities, of which 71 repurchases were made by issuers and 25 purchases were made by shareholders who made a mandatory (voluntary) tender offer. In those corporate actions, securities valued at more than RUB 4.6 billion were (re)purchased.

Market participants can now benefit from new opportunities related to the participation in general meetings of shareholders. The main changes were made to the process of compiling a list of persons entitled to participate in General Meetings. Before, that process was separate from the process of submitting electronic voting instructions through nominee holders. As of 1 July 2016, the two processes were combined based on ISO 20022 and ISO 15022. The technology was available not only for general meetings of shareholders, but also for general meetings of bondholders, UIT unit holders, and holders of mortgage participation certificates (MPC). As a result, over the six-month period following the launch of the new technology designed to compile lists of security holders entitled to participate in general meetings and to vote on resolutions put to the vote, 1,485 meetings were convened and 30,837 instructions were received, of which 1.638 instructions contained votes.

To automate the vote counting process at general meetings of bondholders, NSD has designed the Vote

Counting Module software solution that substantially reduces the risk of errors in vote processing and counting.

Those clients who have decided not to automate, or to automate only partially their participation in corporate actions in accordance with the new statutory provisions have been provided access to NSDirect, NSD's Web-client. At the end of the reporting year, the Web-client was used by 230 issuers, registrars, and depositors.

The reform also involved such groundbreaking change as providing market participants an opportunity to participate in general meetings through the dedicated web site by using the e-voting service. The new service offered by NSD allows security holders to participate in issuers' major corporate procedures, regardless of where their securities are held in custody. The e-voting portal is expected to be launched in 2017, during the season of general shareholders' meetings in Russia.

To establish ongoing communication with the market, NSD launched the dedicated web site (corpactions.ru) devoted to the corporate actions reform, where anyone may get access to information on business processes and message examples, and ask any question. Training workshops and business process tests are run on a regular basis. Eight full-scale tests involving 65 companies took place in 2016.

As part of the corporate actions reform, NSD has successfully migrated to electronic data interchange through registered nominee holders. This has allowed issuers to reduce their costs for the dissemination of corporate actions information in hard copy, while enabling security holders to receive all necessary information from their securities depositories promptly without approaching the issuer.

Electronic Matching

In 2016, NSD completed the final phase of the 'Electronic Matching' project, an automatic matching of all potentially matching clearing and settlement instructions submitted by counterparties for their OTC securities transactions. As a result, NSD's clients became able to no longer use preliminary matching of instructions by telephone, to simplify internal instruction processing, and to reduce the likelihood of operational risks.

From the beginning of the reporting year, clients started actively using the 'Hold & Release' function, modifying the status of their instructions from "preliminary status" to "for execution,") and made more than 42,500 transactions, or 8% of the total number of securities transactions (both on the FOP and DVP basis).

To make settlements through accounts held with NSD, clients use additional short aliases of sub-accounts. As of the end of 2016, clients submitted approximately 6.4 thou-

As part of the corporate actions reform, NSD has successfully migrated to electronic data interchange through registered nominee holders. This has allowed issuers to reduce their costs while enabling security holders to receive all necessary information from their securities depositories promptly without approaching the issuer

COMMERCIAL PAPER ISSUES VALUED AT MORE THAN RUB 3.4 BILLION WERE REGISTERED IN 2016

sand instructions indicating short aliases of sub-accounts. Market participants had the opportunity to simplify filling in instructions by using a bilingual database of securities sub-account short aliases that became operational in 2016.

The 'Hold & Release' function and the standardization of matching processes have made it possible to more than double (from 37% to 79%) the level of NSD's compliance with international requirements and the ECSDA's recommendations for the harmonization and standardization of settlements and preliminary matching of instructions. As part of the project, NSD has harmonized the matching rules and transaction execution times both for FOP and DVP transactions, making it possible to monitor the timeliness of OTC settlements at NSD.

Commercial Papers

In 2016, issuers started to benefit from the simplified issuance of commercial paper. In total, six commercial paper issues valued at more than RUB 3.4 billion, and two commercial paper issuance programs for more than RUB 100 billion were registered in the reporting year.

NSD is working to establish a Centralized UIT Units Record Keeping System that would create the environment and infrastructure required to implement an 'open architecture' of UIT unit distribution in the primary market The relatively low cost of issuing commercial papers is due to the smaller number of intermediaries and the fact that it is unnecessary to list and deal with several counterparties at the same time. There is also no need to register a securities prospectus, thanks to which commercial papers can be issued faster. Commercial papers are an alternative to such funding sources as non-marketable bonds, promissory notes, and certificates of deposit.

Creation of a Centralized UIT Unit Record Keeping System

The platform will allow brokers and nominee holders to provide investors with access to transactions with UIT units of all management companies connected to the system. In turn, management companies will be able to issue UIT units using the trading architecture of the new system, without the need to sign agreements with separate brokers to sell their UIT units. Thus, the technological platform implemented by NSD will allow brokers and management companies to consolidate client bases and offer new services to their clients.

NSD is currently working on a project to establish a Centralized UIT Units Record Keeping System. The project seeks to create the environment and infrastructure required to implement an 'open architecture' of UIT unit distribution in the primary market. The project involves harmonization of data interchange formats and standards, transparency promotion, and information disclosure standardization. The project has three stages: launch of a brokerage scheme, centralization, and setting up a remote distribution scheme. In December 2016, NSD started testing a new automated scheme of interaction between brokers and management companies. The universal Web-client (NSDirect) available to all participants will allow brokers and nominee holders to use a single entry point to purchase, redeem, and exchange units of UITs administered by all management companies that signed up for the NSD EDI System, by using a two-level nominee holding scheme.

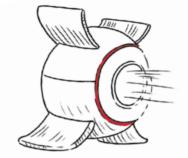
NSD as a Withholding Agent

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 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.

Tax Management

As part of withholding agent services provided when paying out income on foreign securities, NSD, since 2014, has been providing tax exemptions and reliefs under double taxation treaties. When paying out income on deposi-



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

tary receipts, NSD acts as an intermediary in the chain of nominee holders of DRs and provides withholding agents with information required for income beneficiaries to enjoy tax exemptions or reliefs in accordance with the Russian Tax Code. When providing tax exemptions or reliefs on U.S. securities that fall under Chapters 3 and 4 of the U.S. Internal Revenue Code, NSD acts as a qualified intermediary for FATCA purposes, which allows clients to hold U.S. securities and enjoy tax exemptions or reliefs on income paid, at a lower cost than when holding such securities on accounts held directly with ICSDs.

NSD's withholding agent services for foreign securities have allowed NSD's clients to enjoy tax benefits of 13% to 100% of the amount of tax, depending on the securities and the tax jurisdiction in which the securities were issued. 19

ANNUAL REPORT OF NSD 2016

IN 2016,

MARKET PARTICIPANTS STARTED TESTING THE NEW CAPABILITIES OF THE MODERN TECHNOLOGICAL PLATFORM OF THE CORPORATE INFORMATION CENTER NSDDATA.RU



INFORMATION SERVICES

Reliability and Convenience of Information Service Technologies

One of the most important outcomes of the corporate actions reform was the creation of a single source of verified information on corporate actions for the market participants. In accordance with Bank of Russia's Regulation No. 546-P dated 1 June 2016 "On the List of Information Concerning the Exercise of Rights Attached to Securities and to Be Disclosed by Issuers to the Central Securities Depository, Method and Timing of Disclosure, and Requirements to the Central Securities Depository's Granting of Access to Such Information", NSD now has corporate information center status. In 2016, market participants started testing the new capabilities of the modern technological platform of the Corporate Information Center nsddata.ru.

Starting from the effective date of Regulation No. 546-P and until the end of 2016, NSD received information on 2,988 corporate actions from issuers (or parties authorized by issuers) and provided such information to its clients (depositors).

Along with providing access to information on the exercise of rights attached to securities in accordance with Regulation No. 546-P, NSD also paid great attention to im-

Alexander Diakovskiy,

Vice President for Information Services and Marketing

proving its information services and making them more convenient to end users. Over the course of the year, the number of enquiries for basic information on securities and issuers through NSD's web site more than doubled, from 385,100 in 2015 to 878,400 in 2016. The monthly average number of users of NSD's commercial information products increased 2.9 times, reaching 362 by the end of the year.

In 2016, NSD successfully completed the first phase of the project to launch the CIC's new technological platform (nsddata.ru). In particular, the new portal now offers news and a 'Securities' section with free access to basic information on securities serviced by NSD. In 2017, the portal will become a single point of access to all information services offered by NSD, and its clients will be provided with data customization and import options through the API (Application Programming Interface), as well as with simple procedures for product selection and subscription.

One of the milestones of 2016 was the establishment of NSD's Valuation Center providing market participants with information about the fair value of financial instruments. In particular, members of the Valuation Center expert board were elected and the fair valuation methodology was approved. NSD works hand in hand with the Bank of Russia and Interfax, NSD's strategic partner, to develop and improve the Valuation Center.

Thanks to Thomson Reuters, Interfax, and Cbonds joining the Valuation Center's data distribution channels, users in Russia, the USA, the UK, Luxembourg, China, India, Singapore and Hong Kong received information about the fair value of 1,900 instruments in NSD's Valuation Center. One of the milestones of 2016 was the establishment of NSD's Valuation Center providing market participants with information about the fair value of financial instruments

In 2017, NSD will continue its efforts to devise a new, improved financial instrument valuation methodology in close cooperation with the Bank of Russia and major market operators. Moreover, NSD is expected to introduce a mortgage bond valuation methodology prepared by NSD together with the Housing Mortgage Lending Agency, devise valuation methodologies for commercial papers, derivatives, and other asset classes, and integrate Valuation Center's products into the Moscow Exchange's global data mart.

In 2016, NSD began posting information on its web site on concession agreements and operations of concessionaires issuing securities. In accordance with Moscow Exchange rules and requirements, NSD must make a quarterly disclosure of such information on its web site for concession bonds to be listed on the Exchange (Level 1 listed securities). The DISC NSD service offers information in addition to that which must be disclosed publicly. The Collateral Management System enables market participants to reduce their operational burden and manage risks, and allows money market players to reduce potential losses if a counterparty fails to comply with terms and conditions

> NSD promotes strategic partnership with the Interfax Group. RU DATA, the reference database on securities and issuers created by NSD together with Interfax, has been highly evaluated by the market for having brought all available information together in one place. In 2017, as part of efforts to further improve the RU DATA service, NSD will continue cooperating with the Interfax Group by integrating RU DATA with Valuation Center's data, making it possible to offer such additional services as an implied liquidity and default probability index.

> The strategic objective pursued by NSD in developing its information services is not only to provide comprehensive and reliable golden-copy information, but also to create convenient high-value added services. In 2016, NSD signed an agreement with Bloomberg, one of the largest global players in the data market. Joint efforts by the two companies will give clients the opportunity to, upon their instruction, transmit their securities account balance data to Bloomberg via a dedicated channel, thanks to which clients using both NSD and Bloomberg services will be able to utilize Bloomberg's Portfolio & Risk Analytics solution without any further integration.

Reliability and Convenience of Tri-Party Service Technologies

The Collateral Management System (CMS) allows market participants to reduce their operational burden and to manage risks effectively thanks to consolidation of posttrade functions on the CSD's platform. Collateral management also allows money market players to reduce potential losses that could be incurred if the counterparty to a transaction fails to comply with its terms and conditions.

Today, the Collateral Management System is widely used by market participants in repo transactions with a securities basket, as made by such major money market lenders as the Bank of Russia and the Russian Federal Treasury. More than 200 credit institutions acting as borrowers in the money market, including all of the systemically important banks, are connected to the CMS.

Federal Treasury repo transactions with an OFZ basket were on a steady upward trend throughout 2016 thanks both to the increased money supply and the increased maturity of transactions. The value of Federal Treasury's repo transactions amounted to RUB 37.4 trillion, 3.8 times higher than the value of Bank of Russia repos. Late in 2016, market participants successfully tested a procedure for pledging OFZ bonds with upcoming coupon payments to the Federal Treasury as collateral. The new procedure will launch in the spring of 2017.

Due to changes in the monetary policy, the value of Bank of Russia repo transactions involving the use of the CMS

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decreased in 2016 to RUB 9.9 trillion. As of 1 January 2017, the Bank of Russia introduced a new standard form of a universal master agreement under which it is possible to enter into on-exchange repo transactions with the Bank of Russia with a basket of RUB/USD-denominated securities.

Beginning in February 2016, market participants could use a new product of the Moscow Exchange Group, a Clearing Participation Certificate (CPC), the purpose of which is to create a homogeneous universal collateral.

A CPC is a bearer certificated security subject to mandatory centralized safekeeping, issuable by a clearing organization that has formed an asset pool, and that entitles its holder to demand that the clearing organization pay the nominal value of the CPC under specified conditions. Market participants retain their title to assets placed into the pool, and Bank "National Clearing Center" (NCC) issues a CPC to such participants in exchange for their 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 pooled assets, as well as collateral management services enabling clients to select and pool assets against the issuance of CPCs and to collect margins. If necessary, users may replace their assets in the asset pool, and the product additionally provides for automatic processing of most corporate actions.



MORE THAN 200

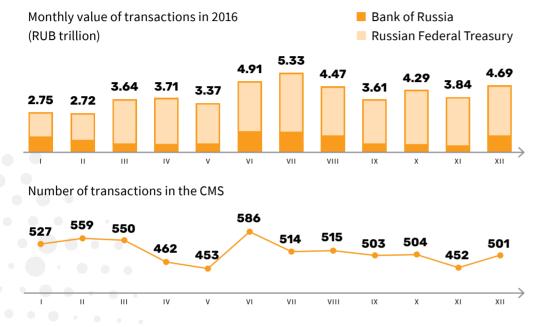
CREDIT INSTITUTIONS ACTING AS BORROWERS IN THE MONEY MARKET ARE CONNECTED TO THE CMS



TRI-PARTY SERVICES

Alina Akchurina,

Managing Director for Collateral Management and Tri-Party Services



As the Bank of Russia's money supply is limited, liquidity redistribution in the inter-dealer market plays an increasingly important role. In 2016, money market participants for the first time used the post-trading infrastructure of the CMS in collateral management and settlement of repo transactions between participants of that segment of the money market. NSD's CMS services are integrated with the leading stock exchanges, which ensures a high level of automation of trade processing and the ability to set rather flexible terms and conditions of settlements. Late in 2016, market participants tested the CMS functionality for the inter-dealer market, which will be rolled out in March 2017. Finance departments of large cities, various public funds, and private pension funds with significant amounts of free cash now deposited with banks consider using repos through the Moscow Exchange Group's infrastructure. Thanks to the ever-increasing popularity of repos as a tool designed to reduce credit risk, NSD made the CMS architecture more flexible this reporting year, such that it can now be used in major creditors' transactions.

Reliability and Convenience of Trade Repository's Technologies

The Bank of Russia confirmed the reliability of the Trade Repository and NSD was granted Russia's first-ever license to conduct trade repository activities. Thus, NSD has become the first trade repository in Russia to obtain such a license in addition to already holding the status of the Russian market's only systemically important trade repository.

The number of derivative and repo transactions reported to the Trade Repository in 2016 increased substantially: in total, 2.4 million trades were reported by market participants (as compared to 454,000 in 2015).

As in the previous year, most reports were for OTC repo transactions, currency forwards, and currency swaps: 1.9 million, 340,300, and 148,700 trades, respectively. The growth was due to the October 2016 launch of mandatory reporting for all OTC repo and derivative transactions, including those not involving master agreements.

The value of registered trades totalled RUB 403.7 trillion.

25

In 2016, the Bank of Russia confirmed the reliability of the Trade Repository and NSD was granted Russia's firstever license to conduct trade repository activities, thus confirming the status NSD already held as the Russian market's only systemically important trade repository

Repository 2.0

The key task for 2016 was the launch of the 'Repository 2.0' project, which involved modernization of the trade reporting technology and services. The project has also provided flexibility in adapting the Trade Repository's technology and governing documents to changes in the laws.

Interaction with clients has been simplified thanks to the alteration of the initial model of contractual relations with clients. The new model reduces paperwork and improves the effectiveness of the processes involved. As a result of legal developments, the launch of reporting for trades made other than under master agreements, and the

Anastasia Kiseleva,

Managing Director for Repository Services



403.7 TRILLION RUB.

IN TRADES WERE REGISTERED WITH NSD IN 2016 increased burden on market participants, NSD has offered special formats designed for bulk reporting that permit the use of a single reporting form to report a large number of trades. Clients have thus been able to reduce their reporting costs and optimize their business processes.

In April 2016, clients were provided free access to the Trade Repository's Web-client, the dedicated software for OTC trade reporting. Clients were smoothly switched to the new software.

The approach to pricing was changed by implementing the custodial model in which services are paid for by reporting agents. This has made it possible to decrease the number of invoices issued by NSD and to optimize their structure. The pricing plans providing for fixed fees depending on the number of a client's transactions were fully revised and new fees were introduced for bulk reporting of same-type trades.

To improve the quality of data reported to clients, NSD launched the format and logical check service that reports all deviations in trade parameters. The burden on clients was decreased by implementing the automatic contract closeout process. Clients were offered an opportunity to request untyped information from the contracts register.

A key task was the launch of the 'Repository 2.0' project involving modernization of the trade reporting technology and services and adapting the Trade Repository's technology and governing documents to changes in the laws In addition, in July 2016, NSD enabled all Web-client users to generate, for free, a Unique Transaction Identifier (UTI) which, in accordance with the statutory requirements, must be specified in trade reports.

Particular attention was paid to client support, both as part of ongoing operations and to help them adapt to the changes caused by the project's implementation. In 2016, more than 4,500 enquiries from market participants were processed by NSD's staff, of which 3,000 enquiries sought advice regarding the transition to the new software and its testing and functionality.

Reliability and Convenience of Payment Service Technologies

In 2016, NSD continued the practice of maintaining high quality services and introducing new ones to the NSD Payment System. Bank account (settlement) services are not only a separate area of business, but are also integrated into NSD's depository and clearing operations, thus creating all-inclusive services for clients.

Throughout 2016, NSD continued improving the NSD Payment System in line with recommendations that the Bank of Russia gave following the assessment of the Payment System for observance of 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). Further efforts were

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made to improve the governing documentation of the NSD Payment System, including documentation governing such key Payment System areas as risk management and maintenance of the required level of uninterrupted operation.

Work has been done to ensure disaster recovery of IT systems and critical services in the NSD Payment System, including money transfer services, within at least two hours of a failure. The NSD Payment System Rules and the Business Continuity and Disaster Recovery Plan have been amended to provide for procedures for matching and completing settlements by the end of trading hours.

In November 2016, the Russian name of the NSD Payment System operated by NSD was changed.

To improve the regulation of settlement services, the amended and restated NSD Payment System Rules have been approved, which define and describe a conditional funds transfer.

In 2016, clients could benefit from the extended range of settlement services offered by the company:

- a service to support cross-currency settlements between clients — a conditional cash transfer on a 'payment versus payment' (PVP-1) basis, ensuring reliable and complete settlement of OTC transactions;
- a recurring cash transfer service, allowing clients to give a standing instruction for recurring cash transfers.

Svetlana Gryanchenko,

Director of Operations Department



58%

THE AMOUNT BY WHICH PAYMENTS IN RUSSIAN RUBLES AND FOREIGN CURRENCIES INCREASED IN 2015-2016



PAYMENT SYSTEM

27

In 2016, NSD's clients significantly increased their securities portfolios held in custody at NSD, which has resulted in a significant increase in the amount of payments in Russian rubles and foreign currencies. The number of conversion transactions made by clients through their bank accounts held with NSD also increased substantially — by 46% against 2015

> The volume of transactions in Russian rubles and foreign currencies in NSD's clients' bank accounts in 2016 remained at the level of the previous year. While the amount of transactions in Russian rubles in 2016 decreased, there was an upward trend in the amount and number of foreign-currency transfers, which surged 16% and 74%, respectively, against 2015.

In 2016, NSD's clients significantly increased their securities portfolios held in custody at NSD, which has resulted in a significant increase in the amount of payments in Russian rubles and foreign currencies (58% as compared to 2015, with the absolute figure totalling almost RUB 5 trillion). The number of conversion transactions made by clients through their bank accounts held with NSD also increased substantially (46% against 2015).

Reliability and Convenience of Innovative Technologies

In addition to the five key areas of business, NSD has been actively developing its IT-related services, including certified SWIFT Service Bureau services, electronic data interchange, and communications with registrars, as well as building distributed technology and supporting Russian FinTech projects.

Certified SWIFT Service Bureau

NSD is a certified SWIFT Service Bureau in the Russian market. As such, NSD offers full access to most SWIFT services and is responsible for arranging interaction with the global network. The Service Bureau allows clients to avoid costs to maintain direct connection to the system, such as costs required to purchase specific SWIFT equipment, to reorganize clients' own infrastructure and personnel, to update SWIFT software on a regular basis, and to ensure compliance with safety and reliability requirements. Most of the costs incurred in complying with those requirements are borne by NSD Service Bureau, while an organization working through NSD's terminal becomes a SWIFT member and enjoys round-the-clock access to the system.

In 2016, NSD became the first SWIFT Service Bureau to secure Premier status in Eastern Europe. The Premier level differs from the Standard one in that a Service Bureau backs up SWIFT's technical infrastructure and uses control procedures equivalent to the SWIFT level, offering clients a safe working environment. Compliance with the Premier status requirements allows NSD to guarantee its clients the maximum level of safety and reliability while using NSD's terminal to work in the SWIFT system. As many as 55 market participants are connected to the NSD Service Bureau.

NSD is an active user of the SWIFT system. In 2016, NSD sent as many as 3.5 mln SWIFT messages, up from 2.7 mln in 2015.

NSD's Electronic Data Interchange

NSD maintains electronic data interchange (EDI) with depositors, clearing participants, clearing houses, exchanges, account fiduciaries, securities sub-account operators, registrars, issuers, correspondent depositories, paying agents, 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.

Alexander Nam, Managing Director for IT Solutions



IN 2016,

NSD BECAME THE FIRST SWIFT SERVICE BUREAU IN EASTERN EUROPE TO SECURE PREMIER STATUS



TECHNOLOGY SERVICES In 2016, NSD developed a prototype for e-proxy voting at security holder meetings, becoming one of the world's first companies to create and test its own blockchain-based technology. The e-proxy voting prototype attracted significant attention in both the Russian and global professional communities

Communication with Registrars

Transition to ISO 20022-compliant electronic messages in corporate actions processing has become a milestone in improving the quality of communications between NSD and registrars. Since 1 July 2016, such messages have been used to provide information on forthcoming general meetings of shareholders and to participate in such meetings, to participate in redemptions or buy-backs of securities, or to purchase securities.

NSD's EDI system allows registrars to use ISO 20022 formats developed by NSD not only for the purpose of communication with NSD, but also for communication with other depositories recorded in share registers.

As of 31 December 2016, NSD is recorded as a CSD nominee holder in 1,517 securities registers and as a nominee holder in 2,750 securities registers, and maintains data interchange with 53 entities keeping registers of shares, UIT units, mortgage participation certificates, Russian depositary receipts, and registered uncertificated bonds.

Distributed Technology Development

NSD is committed to research and innovation in order to offer advanced technology and services to its clients, at the same time maintaining the reliability of technology in a challenging environment. In 2016, NSD established a laboratory for the development and implementation of distributed ledgers based on blockchain technology. Its main objective is to research and test different blockchain platforms and develop prototypes and pilot solutions for their future implementation as part of the company's business processes. The key benefits of such a technology are reduction of operational risks thanks to the use of encryption algorithms, a robust protection against changes in the existing register, and a higher resistance to cyber attacks.

The laboratory analysed 16 possible business use cases of the distributed ledger technology. As a result of the analysis, e-proxy voting at bondholder meetings was chosen as the most suitable business process for the implementation of blockchain technology. In 2016, a prototype of a system for e-proxy voting at security holder meetings, based on blockchain technology in accordance with the ISO 20022 standard, was developed and tested. NSD has thus become one of the first companies in the world to create and successfully test its own blockchain-based technology. The e-proxy voting system prototype itself attracted significant attention in the professional community, both in Russia and globally.

After the prototype was ready, NSD proceeded to develop a pilot version. In 2016, NSD started conducting the legal due diligence for the project and an analysis of the

possible need for changes to the laws and NSD's regulations due to the use of distributed technologies.

Plans call for the development of a pilot system in 2017 capable of carrying out a full cycle of particular voting based on distributed ledger technology in collaboration with market participants.

NSD is actively participating in the Hyperledger Project, one of the largest international collaborative efforts in the FinTech field, created under the Linux Foundation and aimed at building open source blockchain platforms. The Moscow Exchange Group joined it in 2016. One of the key areas of activities under the initiative is the development of a blockchain platform based on the Hyperledger Fabric to ensure an adequate level of confidentiality when working with data in the field of finance.

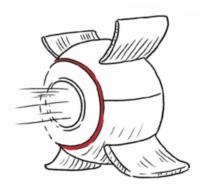
Market participants will be able to use unified international requirements for voting based on DLT that are now being jointly developed by the CSDs of Russia and South Africa.

Support of FinTech Initiatives

NSD is actively promoting the development of the FinTech industry in the Russian market. In 2016, the company became an official partner of the HSE {pro} FinTech 2016 business incubator of the Higher School of Economics and a participant in the Finance & Banking Technologies track of the startup accelerator GenerationS, having thus supported financial market startup projects.

To NSD, innovations mean a search for opportunities to develop new hi-tech products and services for current and

prospective business lines. NSD's interest in the FinTech industry extends beyond blockchain technology. In 2017, NSD and one of the GenerationS resident teams plan to start a joint pilot project for launching a settlement service based on the Open API concept. Also in 2017, NSD is to sponsor the Innotribe Startup Challenge, a leading global FinTech startup competition that will be held in Russia for the first time. The winners of the competition will have a chance to take part in the Innotribe global summit as part of the SIBOS Corporate Forum and present their projects to the major players of the global financial industry.



In 2017, NSD will sponsor the Innotribe Startup Challenge, a leading global FinTech startup competition that will be held in Russia for the first time. The winners will participate in the Innotribe global summit

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CORPORATE GOVERNANCE

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At NSD, corporate governance means that the principles and rules of managing and controlling the company and governing 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 performance of 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;

At NSD, corporate governance means that the principles of managing the company and governing relationships between the company's executive bodies, Supervisory Board, shareholders, and other stakeholders are aimed at setting and achieving NSD's objectives

- ensure that timely and accurate disclosure is made on all material matters regarding NSD, including the financial situation, performance, ownership, and governance of NSD; and
- ensure effective control over NSD's financial and business activities with a view to safeguarding the rights and legitimate interests of shareholders and other stakeholders.

In corporate governance processes, NSD follows the principles recommended by Moscow Exchange and set out in the Moscow Exchange's Corporate Governance Code, including the principle that requires acting in the best interests of users of services provided by Moscow Exchange Group companies, the principle of corporate social responsibility, and other principles.

The Supervisory Board carries out the strategic management of NSD and exercises effective control over the performance of the Executive Board and the Executive Board Chairman. ANNUAL REPORT OF NSD 2016

In corporate governance processes, NSD follows the principles recommended by Moscow Exchange and set out in the Moscow Exchange's Corporate Governance Code, including the principle that requires acting in the best interests of users of services provided by Moscow Exchange Group companies, the principle of corporate social responsibility, and other principles

- The Supervisory Board is responsible for defining the company's development strategy, exercising effective control over the company's financial and business activities, and approving the company's budgets.
- 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 meetings in absentia, depending on the importance of the agenda matters and in accordance with the meeting schedule.
- 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 is authorized to deal with the most complex issues arising in the company's day-to-day operations.
- The composition of the Executive Board ensures that NSD's executive bodies carry out their functions most effectively.

To enable its shareholders to make reasonable and informed 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 remains 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 clause 12.3.26.9 of NSD's Articles of Association, the company's corporate governance system is assessed at least once per year. In 2016, 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" that was 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.

In fact, NSD already follows many such recommendations in building its corporate governance framework, which is an evidence of a rather mature level of corporate governance at the company. NSD thoroughly analyses both 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

14 MEETINGS OF THE SUPERVISORY BOARD WERE HELD IN 2016

NSD follows many recommendations similar to the Bank of Russia's Corporate Governance Code in building its corporate governance framework a sign of the company's high level of maturity. It also analyses the consequences of implementing specific recommendations set out in that Code, taking into account current NSD corporate governance practices, shareholders' expectations, the current economic situation, and applicable regulatory guidelines

> requirements to corporate governance, NSD expects that in 2017 the company will continue taking steps to bring its corporate governance practices in line with the recommendations set out in the Code.

Supervisory Board's Performance Report for 2016

In 2016, 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 14 meetings during the reporting year, including six 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:

- approval of the Development Strategy for the Period through 2020;
- approval of the Business Continuity Strategy;
- approval of the Risk Management Development Strategy 2020;
- utilization of NSD's Revenues, Costs and Income Budget and NSD's Capital Expenditures Budget for 2016, and the making of adjustments thereto;
- approval of NSD's Revenues, Costs and Income Budget and NSD's Capital Expenditures Budget for 2017;
- preliminary approval of NSD's Annual Report for 2015;
- approval of the fees payable to NSD's independent auditor;
- making changes to NSD's Fee Schedules;
- bringing NSD's employee compensation plan in line with Bank of Russia's Guidelines No. 154-I dated 17 June 2014;
- review of NSD's quarterly performance reports prepared by the Executive Board; and
- addressing various matters related to remuneration of the members of NSD's executive bodies.

Also, the Supervisory Board gave a great deal of attention to addressing 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;

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- approval of the organizational structure and election of members of NSD's Executive Board, and authorizing Executive Board members to hold positions in management bodies of other organizations;
- convocation of the annual General Meeting of Shareholders in 2016;
- recommendations to the annual General Meeting of Shareholders in 2016;
- election of new members to Supervisory Board Committees and Customer Committees; and
- approval of NSD's interested party transactions.

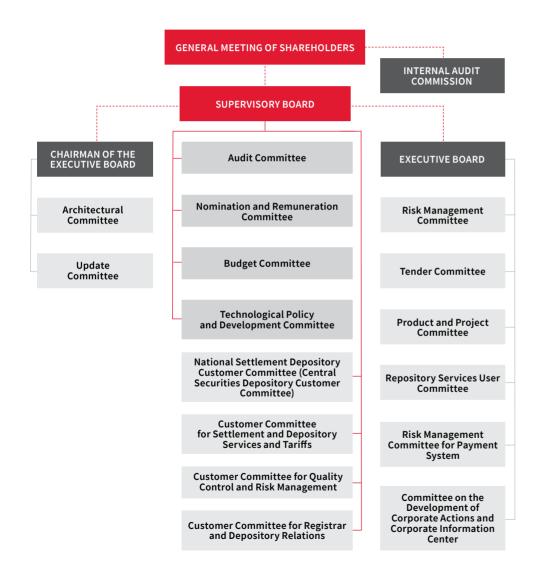
In addition, decisions were taken on issues relating to NSD's operational efficiency and amendments to, and approval of, NSD's internal regulations, including the following:

- 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 risks and of the effectiveness of risk management at NSD;
- approval of NSD's internal regulations, including:
 - documents required for the obtainment by NSD of a license for trade repository activities;
 - Technological Policy in the Field of Basic Information Technology (IT);
 - Corporate Governance Policy;
 - Risk and Capital Management Strategy;
 - amended and restated Risk Management Policy;
 - amended and restated Financial Risk Management Policy;
 - Non-Financial Risk Management Policy;

- amended and restated Clearing Rules;
- amended and restated Electronic Communication Rules;
- amended and restated Terms and Conditions of Depository Operations;
- amended and restated Regulations on NSD's Internal Audit
 Department;
- amended and restated internal regulations that govern the employee compensation plan in compliance with the requirements set forth by Bank of Russia's Guidelines No. 154-I dated 17 June 2014;
- Conflict of Interest Prevention Policy;
- amended and restated Code of Professional Ethics;
- amended and restated Financial Recovery Plan;
- review of the Report on NSD's Customer Satisfaction Index;
- approval of NSD's risk appetite for 2016; and
- approval of NSD's Key Performance Indicators (KPIs) for 2016.

In 2016, 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 addressed such key issues as the Development Strategy for the Period through 2020, the Business Continuity Strategy, and the Risk Management Development Strategy 2020

NSD's Corporate Governance Structure



In 2016, 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 the 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 necessary internal regulations, the approval of which is a matter reserved for 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.

The Supervisory Board gave a great deal of attention to issues of corporate governance at NSD and decisions were taken on issues relating to NSD's operational efficiency

NSD's Management Bodies

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 matters reserved to 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 proceedings 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 Supervisory Board 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 for a term of two years. The proceedings of the Executive Board are governed by the Regulations on the Executive Board approved by the General Meeting.

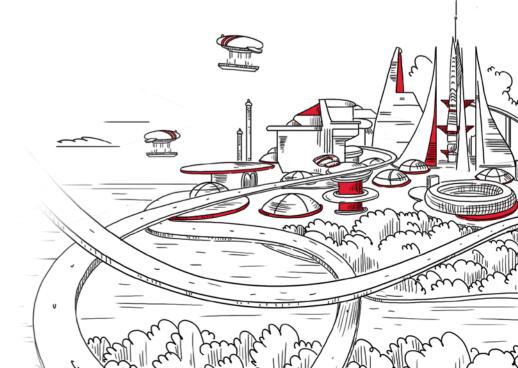
Committees and Commissions

Additional information regarding NSD's Committees and Commissions is available on page 53 of this Report.

Internal Audit Commission

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



Supervisory Board Committees

Audit Committee

Ensuring efficient work of NSD's Supervisory Board in organizing 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.

Customer Committees of the Supervisory Board

Customer Committee for Quality Control and Risk Management

Making recommendations to the Supervisory Board and/or the executive bodies 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 to the Supervisory Board and/or the executive bodies for the development of depository and settlement products and NSD's tariff policy.

Customer Committee for Registrar and Depository Relations

Making recommendations to the Supervisory Board and/or the executive bodies 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.

Committees of the Executive Board

Risk Management Committee

Assistance to the Executive Board in the field of corporate governance and risk management improvement.

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 Services User 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.

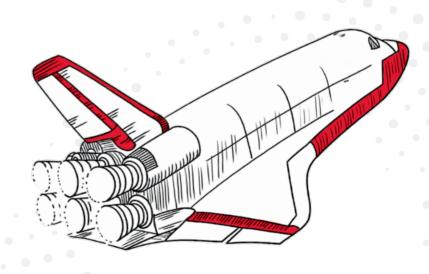
Committees of the Chairman of the Executive Board

Architectural Committee

Making proposals to ensure uninterrupted operation of IT infrastructure, development of 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.



Supervisory Board members elected at the annual General Meeting of Shareholders on 26 May 2015²

- Valerya Avxentyeva
- Eddie Astanin
- Alexander Afanasiev
- Joerg Bongartz
- Oleg Vyugin
- Sean Glodek
- Bella Zlatkis
- Aleksandar Krunic
- Paul James Ostling
- Andrey Popov
- Vladimir Reutov
- Oksana Strakhova
- Nadezhda Ushakova
- Tatiana Chepeleva
- Ilya Yuzhanov

Supervisory Board members elected at the annual General Meeting of Shareholders on 31 May 2016. Information on the Supervisory Board Members³

Valerya Avxentyeva

6 February 1969

Eddie Astanin 16 December 1961

Education:

1996. Moscow State Evening Institute of Metallurgy.2002. Finance Academy under the Government of the Russian Federation.

Institute. 1992. Candidate of Technical Sciences. 1996. Institute for Further Training and Qualification Upgrade in Finance and Banking at the Finance Academy under the Government of the Russian Federation.

1984. Mozhaisky Military Engineering

Employment:

Chief Operating Officer, **Otkritie Broker JSC.**

Settlement Depository.

Chairman of the Executive Board, National

Previous positions:

2007–2014. Deputy Director General (Operations), Chief Operating Officer, Director General, Otkritie Brokerage House JSC. 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.

2 Information on the Supervisory Board members elected on 26 May 2015 is available in NSD's Annual Report for 2015.

3 As of 31 December 2016.

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Alexander Afanasiev 12 January 1962

Paul Anne F. Bodart Independent director 22 January 1953

1976. Universite Catholique de Louvain, Belgium.

1987. INSEAD, Fontainebleau, France.

Education:

1984. Moscow Finance Institute.1987. Moscow Finance Institute, postgraduate course.

Employment:

Chairman of the Executive Board, MoscowIndependent director and member of the audit committee of Belfius Bank S.A.Exchange MICEX-RTS PJSC.Professor at the Solvay Business School of the Free University of Brussels.

Previous positions:

Deputy Chairman of the Executive Board, Bank WestLB Vostok, a subsidiary of the German banking group WestLB AG. Chief Executive Officer, **Bank of New York S.A./N.V., Belgium.** Member of EMEA Executive Committee, **Bank of New York Group Inc., London.** T2S Board Member, **European Central Bank.** Independent Director and Chairman of the Audit Committee, **Dexia SA.**

Mikhail Bratanov 16 May 1973

Education:

1996. Moscow Institute of Electronic Technology (Technical University) (MIET).
2003. Moscow Institute of Electronic Technology (Technical University) (MIET), post-graduate course, Ph.D. (Economics).
2011. The Moscow School of Management SKOLKOVO, Executive MBA.
2014. Institute of Directors (IoD), London, Great Britain, Dip IoD.

Employment:

PJSC ROSBANK, Head of Securities Services, Regional Head (Russia and CIS), Societe Generale Securities Services. Currently, also a member of the Boards of Directors of PARTAD and RB Specialized Depository LLC and a member of the Supervisory Board of Russian National Reinsurance Company JSC.

Oleg Vyugin

Independent director 29 July 1952

1974. Lomonosov Moscow State University.1978. Lomonosov Moscow State University, post-graduate course.

Bella Zlatkis 5 July 1948

1970. Moscow Finance Institute,All-Union Correspondence.1978. Financial Institute, post-graduate course. Candidate of Economic Sciences.

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 a member of the Boards of Directors of BINBANK PJSC and Rosneft Oil Company PJSC, and the Chairman of the Board of Directors of 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. Deputy Chairperson of the Executive Board, **Sberbank of Russia.**

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Paul James Ostling

Independent director 22 September 1948

Education:

1969. Fordham University.1973. Fordham University School of Law.1983. Harvard University, advanced management program.

Andrey Popov 21 January 1973

1995. Truman State University (Missouri, USA).1996. Finance Academy under the

Government of the Russian Federation.

Dmitry Tolokonnikov

Independent director **27 April 1986**

2010. Financial University under the Government of the Russian Federation.2008. Moscow State Law University.

Employment:

Member of the Board of Directors, **Uralkali**. Board member, **Phoenix Neftegaz Services, LLC**. Chief Information Officer (CIO), Member of the Management Board, **AO Raiffeisenbank, Russia.** Vice President, Legal Department, **RDIF Management Company.**

Previous positions:

Board Chairman and CEO, **Brunswick Rail** Limited.

Board member, **Datalogix, Inc.**

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. **2011-2013.** Deputy Head (IT) of Banking Transactions and IT Directorate, **AO Raiffeisenbank, Russia.**

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



Nadezhda Ushakova 6 February 1967

Education:

1989. State Finance Academy.

Tatiana Fomina 26 December 1968

1991. Sergo Ordzhonikidze Moscow Aviation Institute.

Alexey Fedotov Independent director 16 July 1965

1986. Moscow Institute of Radio Engineering, Electronics and Automation.

Employment:

Senior Vice President, Head of Depository, **VTB Bank.**

Vice President, Head of Financial Market Operations Directorate in the Banking Operations Department, **AO UniCredit Bank.** Business Development Director (Russia and CIS), **RISE FINANCIAL TECHNOLOGIES LTD., UK.**

Previous positions:

2004-2009. Head of Custody, Deutsche Bank LLC. 1997-2004. Custody, ING Bank (Eurasia) ZAO. Head of Securities and Funds Service (Russia and CIS), **Citibank, Russia**.

Tatiana Chepeleva 1 July 1976

Education:

1999. Moscow University of Consumer Cooperation.

Ilya Yuzhanov Independent director 7 February 1960

1982. Leningrad State University.1989. Leningrad State University, Candidate of Economic Sciences.2013. Institute of Directors, UK, IoD Chartered Director.

Employment:

Managing Director, Head of IB Operations Strategy, **FG BCS.**

Member of the Board of Directors, **United Wagon Company.** Member of the Board of Directors, **ROSNANO.**

Member of the Supervisory Board, Independent Directors Association, Russia.

Previous positions:

Deputy Chief Operating Officer, **Bank Otkritie.** Head of Moscow Office, **OTKRITIE**

SECURITIES LIMITED.

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.

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Information on the Executive Board Members⁴

Eddie Astanin

Chairman of the Executive Board **16 December 1961**

Education:

1984. Mozhaisky Military Engineering Institute.

1992. Candidate of Technical Sciences. **1996.** Institute for Further Training and Qualification Upgrade in Finance and Banking at the Finance Academy under the Government of the Russian Federation.

Employment:

Chairman of the Executive Board, National Settlement Depository.

Irina Veremeenko

Chief Accountant, Director of Accounting and Reporting Department 24 May 1965

1987. Moscow Finance Institute.

Maria Krasnova

Deputy Chairman of the Executive Board **13 February 1970**

1992. Lomonosov Moscow State University.

Chief Accountant, Director of Accounting and Reporting Department, Executive Board Member, **NSD.** Deputy Chairman of the Executive Board, Executive Board Member, **NSD**.

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. Vice President, Director for Corporate Matters, Risks, and Legal Support, **NSD.** President, **Closed Joint-Stock Company "Depository Clearing Company".**

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Sergey Putyatinskiy

IT Director 15 July 1982

Education:

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

Andrey Shlyappo

Deputy Chairman of the Executive Board **12 September 1968**

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

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Employment:

IT Director, Executive Board Member, **NSD.** Deputy Chairman of the Executive Board, Executive Board Member, **NSD.**

Previous positions:

2012-2013. Vice President, IT Director, BankOtkritie.2009-2012. Business Development Director,

Neoflex Consulting.

2010-2014. Director of Depository Transactions Department, Vice President, Director of Operations, **NSD.**

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 accompanied by making amendments to NSD's Articles of Association and other internal regulations secured for NSD's customers the right to participate in managing NSD and ensured a balance between the interests of NSD's majority and minority shareholders. The broad representation of securities market participants in NSD's share capital (based on the 'one participant — one share' principle) gives NSD's clients an opportunity to participate in developing NSD's product range and tariffs, i.e., establish control over the price and quality characteristics of NSD's services.

The Shareholders Agreement demonstrates that the Moscow Exchange Group is willing to establish a corporate governance system that is transparent to securities market participants.

Because certain international central securities depositories became shareholders in 2014, NSD is now 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 in securities of Russian or other CIS issuers, and also to offer investors from CIS countries services for execution of transactions in 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 Shareholders⁵

- 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. JSC "Bank Credit Suisse (Moscow)"
- 10. Joint stock company Raiffeisenbank
- 11. Stock company Saint-Petersburg Currency Exchange
- 12. Joint Stock Company UniCredit Bank
- 13. KIT Finance (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

5 As of 31 December 2016.

- 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. B&N Bank (Public Joint Stock Company)
- 28. Reestr-RN Limited Liability Company
- 29. Novyi Registrator JSC
- 30. Professional Registration Center CJSC
- 31. Joint Stock Company "DRAGa"
- 32. Joint Stock Company "Independent Registrar Company"
- 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)
- 38. Joint Stock Company Commercial Bank "Citibank"

General Meeting of Shareholders

The proceedings of General Meetings of Shareholders are governed by the Rules of Procedure of NSD's General Meeting of Shareholders approved by the General Meeting.

On 31 May 2016, the annual General Meeting of Shareholders resolved to approve the following internal regulations of NSD:

Because certain international central securities depositories became shareholders in 2014, NSD can position itself as a Eurasian international central securities depository. 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

- Articles of Association;
- Rules of Procedure of the General Meeting of Shareholders;
- Regulations on the Supervisory Board;
- Regulations on the Executive Board;
- Regulations on the Internal Audit Commission; and
- NSD's Supervisory Board Members' Remuneration and Expenses Reimbursement Regulations.

The General Meeting also approved NSD's Annual Report for 2015 and appointed NSD's external auditor. In addition, the General Meeting made decisions on profit distribution and dividend payment for 2015, elected the Supervisory Board and the Internal Audit Commission, made decisions on remuneration of the Supervisory Board members, and approved interested party transactions.

No extraordinary General Meeting of Shareholders was held in 2016.

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 31 May 2016 passed the following resolutions in relation to dividend payment to NSD's shareholders:

■ Pay RUB 4,611,746,000 out of NSD's net profit for 2015 as dividends to the shareholders.

The annual General Meeting of Shareholders resolved to pay RUB 4,611,746,000 out of NSD's net profit for 2015 as dividends to the shareholders and approved the dividend amount of RUB 3,906.02 per registered ordinary share in NSD. The dividends were paid in full and within the prescribed timeframe

- Approve the dividend amount of RUB 3,906.02 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 10 June 2016 as the record date for dividend payment purposes.
- Pay the dividends within the time limits required by the Russian laws.

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

Remuneration of NSD's Supervisory Board Members

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

In determining the amount of remuneration payable to Supervisory Board members, the following factors are taken into account:

- independent director status;
- the exercise of functions of Chairperson / Deputy Chairperson of the Supervisory Board;
- Supervisory Board Committee membership;

- the exercise of functions of Supervisory Board Committee Chairperson; and
- attendance at in-person Supervisory Board meetings and meetings of Supervisory Board Committees.

The total remuneration paid in 2016 to the Supervisory Board members amounted to RUB 36,250,000, including RUB 15,000,000 paid to the independent directors.

Remuneration of NSD's Executive Board Members

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 key performance indicators are set for each Executive Board member, and the amount of remuneration payable to such members depends on whether the KPIs are achieved.

Information regarding the compensation plan and the remuneration paid to the Executive Board members, which

The Supervisory Board sets key performance indicators in accordance with recommendations made by its Nomination and Remuneration Committee. Individual KPIs are set for each Executive Board member, and the amount of remuneration payable to such members depends on whether they are achieved

is 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 for 2016 prepared under the Russian Accounting Standards (RAS).

NSD's Supervisory Board Committees and Other Committees

Audit Committee

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

In 2016, NSD, like all major financial institutions in Russia and around the globe, faced a number of challenges: uncertainty of politics, financial policy, and regulation; market volatility; and the need to devote attention to such new objecMEETINGS DEALING WITH 35 ISSUES WERE HELD BY THE AUDIT COMMITTEE IN 2016

Members (as of 31 December 2016):

1	Paul James Ostling	Independent director, Chairman of the Committee
2	Paul Anne F. Bodart	Independent Member of Board of Directors and Chairman of Audit Committee, Dexia SA/NV, Belgium
3	Dmitry Tolokonnikov	Vice-President, Legal Department, RDIF Management Company
4	Nadezhda Ushakova	Senior Vice President, Head of the Depository, VTB Bank

tives as computer security and the protection of clients' and the company's own information. Throughout the reporting year, the Audit Committee and NSD's business units were actively involved in dealing with these challenges.

Highlights of the year: In 2016, the Audit Committee held 11 meetings and dealt with 35 issues.

In 2016, the Committee was involved in the process of agreeing upon NSD's updated regulations concerning risk management, including the Financial Recovery Plan, as well as new regulations governing NSD's risk and capital management system and regulations required for the obtainment by NSD of a license for trade repository activities. At its meetings, the Committee conducted regular reviews of plans and performance reports of NSD's internal control divisions and progress reports concerning the implementation of the Risk Management Development Strategy.

In 2017, the Committee will pay specific attention to preventing financial risks.

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 on matters relating to financial planning and financial resources management at NSD.

Highlights of the year: In 2016, the Committee held eight meetings. The Committee's top priorities were related to NSD's budget planning amidst the crisis and matters relating to the approval and introduction of fees for NSD's products and services. The Committee's key task for 2017 will be to ensure operational cost-effectiveness of NSD's business while providing earmarked financing for priority projects. For these purposes, the Committee will regularly review NSD's management accounts, with a focus on NSD's projects and ongoing operations. NSD's tariff policy will remain one of the key priorities for the Committee in 2017.

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

Members (as of 31 December 2016):

1	Evgeny Fetisov	Chief Financial Officer (CFO), Moscow Exchange, Chairman of the Committee
2	Mikhail Bratanov	Head of Societe Generale Securities Services in Russia and CIS, Head of Rosbank Securities Services Department
3	Tatiana Fomina	Vice President, Head of Financial Market Operations Directorate in the Banking Operations Department, AO UniCredit Bank

Members (as of 31 December 2016):

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

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 2016, the Committee held seven meetings at which the Committee members made recommendations concerning the composition of NSD's Executive Board and remuneration payable to the Executive Board members, as well as recommendations as to:

- new nominees to the Supervisory Board to be elected at the annual General Meeting in 2016;
- NSD's Key Performance Indicators (KPI) for 2016 and assessment of the achievement of NSD's KPIs for 2015;

- remuneration of the Chairman of the Executive Board and Executive Board members for 2015, and remuneration to the heads of the internal control and risk management divisions;
- the introduction of amendments to NSD's Supervisory Board Members' Remuneration and Expenses Reimbursement Regulations; and
- bringing NSD's employee compensation plan in line with 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 results of 2016.

Members (as of 31 December 2016):

1	Anatoly Karachinsky	President of the IBS Group,
		Chairman of the Committee
2	Mikhail Bratanov	Head of Societe Generale Securities Services
		in Russia and CIS, Head of Rosbank Securities Services
		Department
3	Vladimir Gibenko	IT Director, Renaissance Capital
•	• • •	
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, AO Raiffeisenbank, Russia
7	Sergey Putyatinskiy	IT Director, NSD
_		
8	Mikhail Khasin	Senior Managing Director of Technology,
		Sberbank of Russia
9	Alexander Chetverukhin	Head of IT, Barclays Capital Russia
10	Yuri Yartsev	Head of Investment Banking IT Support, BCS

Technological Policy and Development Committee

Mission: Analysing 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 matters relating to the technological policy concerning the creation, maintenance, operation, and development of such IT systems.

Highlights of the year: In 2016, the Committee focused its efforts on planning NSD's future IT development. As part of the efforts, the Committee discussed a draft document describing the target state of NSD's IT systems in 2020, resource management approaches, and project risks. The document (NSD's IT Development Program for 2017-2020) was eventually approved by the Supervisory Board.

In 2017, the Committee will further deal with matters relating to the implementation and monitoring of NSD's IT Development Program and consider NSD's new projects and IT products.

Customer Committees of the Supervisory Board

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: Svetlana Kamasheva, Managing Director, Head of New Products Department, VTB Bank (PJSC).⁶

Highlights of the year: In 2016, the Committee held five meetings at which the Committee members approved amendments to the Fee Schedule for NSD's Depository Services, the amended and restated Electronic Communication Rules, and the amended and restated Terms and Conditions of NSD's Depository Operations.

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 matters:

- NSD's customer policy, in particular a client onboarding process and servicing principles applicable to various client categories;
- NSD's marketing policy in promoting its services; improving customer services and ensuring control over 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; and
- approving internal regulations relating to NSD's clearing operations.

The Budget Committee's key task for 2017 will be to ensure the operational cost-effectiveness of NSD's business while providing earmarked financing for priority projects. The Committee will regularly review NSD's management accounts, with a focus on NSD's projects and ongoing operations. NSD's tariff policy will remain one of the key priorities in 2017

Chairperson: Natalia Sidorova, Head of Global Securities Services, Transaction Banking Services Department, AO UniCredit Bank.⁷

Highlights of the year: In 2016, the Committee held one meeting at which Committee members discussed technological changes aimed at improving depository services offered to clients, as well as the development prospects of NSD's Web-client solution.

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 6 Prior to 29 July 2016, the Committee was chaired by Polina Goloschapova, Head of Operations Department, **Credit Swiss** Bank (Moscow) CJSC. Svetlana Kamasheva was elected to the position of Committee Chairperson on 30 September 2016.

7 Prior to 20 December 2016, the Committee was chaired by Olga Petrova, Head of Product Development Unit, Depository Division, Securities Department, AO Citibank.

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

Chairperson: Evgenia Klimova, Head of Custody Services Department, AO Raiffeisenbank.⁸

Highlights of the year: In 2016, the Committee held seven meetings, at which the Committee members dealt with matters relating to the development of NSD's priority projects (such as the corporate actions reform, e-voting, electronic matching, the Corporate Information Center, alternative data transmission channels, and transition to the Web-client/file gateway) and the tariff policy (concerning service fees applicable to foreign securities, depositary receipts conversion, maintenance of individual accounts, accession to ICSDs' securities lending programs, and introduction of promotional fees).

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 NSD's existing relations with registrars that maintain registers of registered securities holders, and with specialized depositories that maintain registers of UIT unit holders;

- making proposals to change NSD's communication technologies being used to interact with registrars, including electronic data interchange technologies;
- making proposals to design new technologies to improve the quality of NSD's relations with registrars and specialized depositories; and
- dealing with any other matters relating to the Committee's tasks and objectives.

Chairperson: Lyudmila Mironova, General Director, Registrar R.O.S.T. JSC.⁹

Highlights of the year: In 2016, the Committee held three meetings, at which the Committee members dealt with, among others, the following matters: implementation of the functionality to disclose information on corporate actions; redemption of bonds; improvement of the Web-client; and implementation of the e-voting project.

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, Executive Board member, NSD.

8 Prior to 20 December 2016, the Committee was chaired by Dmitry Zaliznyak, Head of Direct Custody and Clearing, CB "J.P. Morgan Bank International" (LLC).

9 Prior to 20 December 2016, the Committee was chaired by Yuri Taranovsky, General Director, Reyestr JSC. **Highlights of the year:** In 2016, the Committee held nine meetings, at which the Committee members dealt with a number of matters relating to operational reliability of NSD's services, operation and development of the risk management system, business continuity, and information security. In particular, the Committee dealt with the following matters:

- progress in the implementation of the initiatives provided for by NSD's Risk Management Development Strategy;
- acceptance of residual risks in ongoing operations;
- progress in the implementation of the business continuity and disaster recovery plans and plans for building failure-free infrastructure;
- business continuity and disaster recovery plan testing results; and
- steps aimed at enhancing the level of NSD's IT services protection against cyber threats.

The outcomes of Committee meetings are regularly reported to the Executive Board.

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, head of non-financial risks management, NSD's Risk Management Department.

The Risk Management Committee for Payment System dealt with such matters as whether the NSD Payment System meets the information security requirements set forth by the Bank of Russia; risk management assessment of the NSD Payment System and its uninterrupted operation; and implementation of the Plan of Changes to the NSD Payment System

Highlights of the year: In 2016, the Committee held six meetings. Apart from organizational matters, the Committee members dealt with such matters as whether the NSD Payment System meets, in terms of information security, the requirements set forth by the Bank of Russia (including such matters as secure payments and money safety); risk management assessment of the NSD Payment System and its uninterrupted operation; and implementation of the Plan of Changes to the NSD Payment System, as prepared in accordance with the Bank of Russia's recommendations based on the Principles for Financial Market Infrastructures.

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's contractors failing to deliver.

Chairperson: Georgy Uryutov, Director of the Department of General Economics.¹⁰

10 Prior to 9 March 2016, the Committee was chaired by Gennady Booth, Director of Strategic Planning and Control Department, NSD. In 2016, the Tender Committee held 26 meetings and dealt with 64 issues. Most matters related to the outsourcing of the design and maintenance of various IT systems and software solutions. The Committee also approved a new tender process

Highlights of the year: In 2016, the Committee held 26 meetings and dealt with 64 issues. Most of the matters related to the outsourcing of the design and maintenance of various IT systems and software solutions. In particular, counterparties were selected to train employees and to acquire licenses, computer hardware, and other equipment. In addition, a new tender process was approved.

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 2016, the Committee held 26 meetings, at which the Committee members, among

other things, discussed the following projects: collateral management in derivative transactions; development of channels for remote communication with clients; modernization of corporate actions processing in the recordkeeping system; establishment of an automated corporate actions processing system; netting of on-exchange and OTC trades; centralized system of e-mortgage recordkeeping and settlements; instruction prioritization; collateral management system integration with the Trade Repository; establishment of NSD's global depository back office; and building the technology for STP processing of voluntary put-options and buy-backs (BPUT).

Repository Services User Committee

Mission: The 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: Marina Presnyakova, Executive Director, COO, Commercial Bank "J.P. Morgan Bank International" (Limited Liability Company).¹¹

Highlights of the year: In 2016, the Committee held two meetings, at which the Committee members dealt with such matters as: a new pricing model of the Trade Repository; transition to a new trade reporting model; plans to make amendments to the Terms and Conditions of the Provision of Repository Services; improvement of the Trade Repository's software; the launch of new services; and Bank of Russia's plans to roll out centralized clearing.

11 Prior to 19 February 2016, the Committee was chaired by Alexander Chetverukhin, Head of IT, Barclays Capital Russia.

Committee on the Development of Corporate Actions and Corporate Information Center

Mission: The Committee's primary role is to consider 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 2016, the Committee held three meetings at which Committee members dealt with various matters related to the corporate actions reform, redemption of bonds, improvement of the Web-client, e-voting project implementation, and NSDirect service development.

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 2016, the Committee held 78 meetings, of which 36 meetings were convened to discuss

matters relating to the installation of software releases or patches, and 42 meetings were convened to assess nonproject-related requests.

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, as well as introducing and using advanced and promising settlement, depository, and clearing technologies to address tasks set before NSD.

Chairperson: Sergey Putyatinskiy, IT Director, Executive Board member.

Highlights of the year: In 2016, the Committee held 17 meetings. Among 39 matters dealt with by the Committee were the following: protection against confidential data leakage and unauthorized access to files at NSD; applying state-of-the-art technology to a concept of IT services and resources use at NSD; secure user access to the Internet; testing reporting automation aimed at reduction of labour efforts and costs and reports' quality improvement; NSD's IT development strategy in the field of software quality control; and other matters relating to selection of architectural solutions, implementation platforms, IT solution providers, etc. MEETINGS

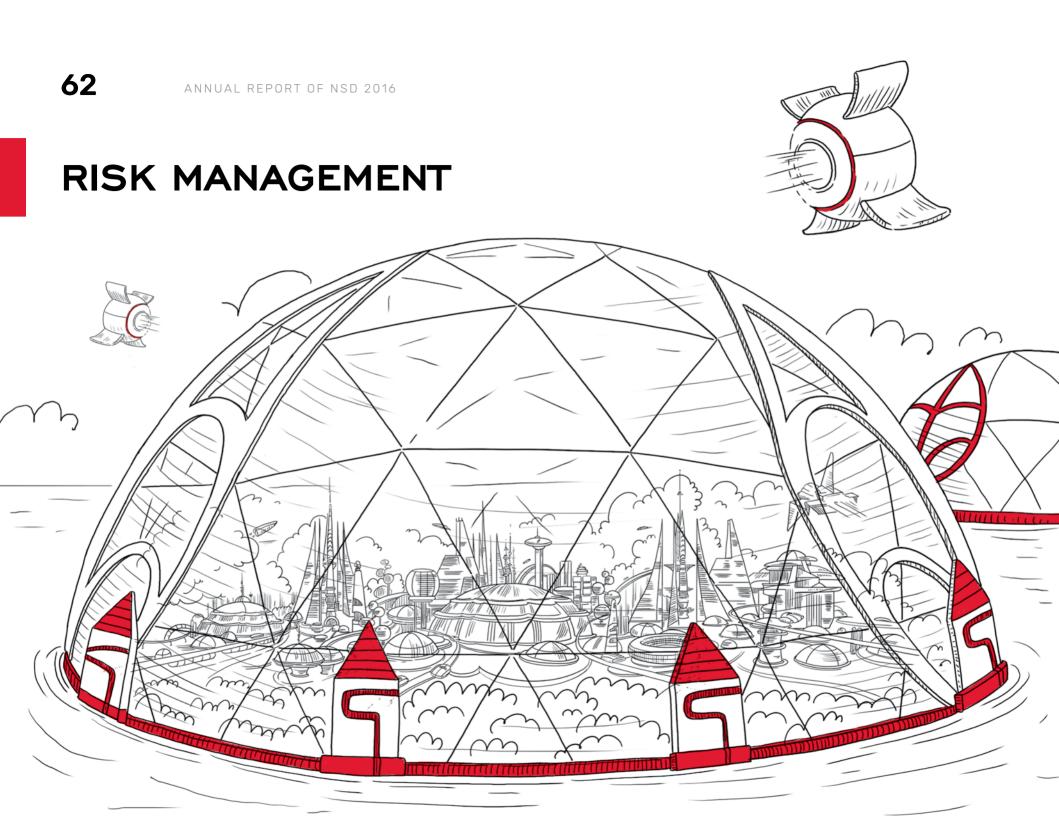
WERE HELD BY THE

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IN 2016



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 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 processes are based on the Integrated Enterprise Risk Management Framework (COSO ERM) and constitute an integral part of NSD's operations.

Effective risk management contributes both to optimal decision-making in the context of uncertainty and related risks, and the use of available opportunities.

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 nonfinancial 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 process includes measures aimed at identifying, assessing, responding to, monitoring, and controlling NSD's risks. NSD's risk management system promotes sustainable development of the Russian financial market in accordance with international standards, focusing on effective risk management for both the company and financial market infrastructure participants. Risk management at NSD ensures operational reliability and steady development of the company's key areas of business, and guarantees that the company meets its obligations to its shareholders, clients, regulator, and other stakeholders

The key tools designed to manage risks include:

- Collection and analysis of information on risk events.
- Identification, assessment, and reduction of risks in NSD's current business processes, projects, and products.
- Setting limits and other restrictions with respect to the risks taken.
- Managing the assets and liabilities portfolio for the purpose of its optimization in terms of maturity and structure.
- Setting aside reserves to cover potential losses.
- Monitoring of NSD's risk level and the impact of changes in the external environment on the company's risk profile.

ANNUAL REPORT OF NSD 2016

The Risk Management System Development Strategy for the Period until 2020 has been prepared and approved. It reflects the relevant provisions of NSD's business strategy; the 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; the SWOT analysis; and the Moscow Exchange Group's Strategy for 2015–2020

> In addition, to ensure the company's financial stability, various processes have been implemented to plan and maintain NSD's capital at the level adequate to cover risks pertaining to the company's activities, including in stress conditions. Compliance with the capital requirements is monitored on a daily basis.

Key Milestones in Risk Management in 2016

In 2016, NSD continued its efforts to improve its risk management tools and practices. In particular, the most important initiatives include the following: 1. The Risk Management System Development Strategy for the Period until 2020 has been prepared and approved. The Strategy was prepared to reflect the following: the relevant provisions of NSD's business 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.

The key strategic objectives are as follows:

- To maintain a balance between the development of the company and its risks and the risks of the infrastructure as a whole.
- To use a reasonable capital allocation approach.
- To use resources effectively.
- To ensure a high level of risk culture.
- To become a center of infrastructural risk management competences and initiatives.
- 2. Improvement of the risk and capital management process. Implementation of internal procedures for capital adequacy assessment (IPCAA). Implementation of a methodological framework and processes required to ensure that NSD, starting from 1 January 2017, meets the IPCAA requirements set forth by Bank of Russia's Guidance No. 3264-U.

- 3. Expansion of the list of information sources for management risk reporting purposes; enabling all stakeholders to have prompt access to required information.
- 4. Update of NSD's risk map; analysis of sources of information on the company's key objectives and pertaining risks; steps taken to identify key risks (with senior and mid-level executives involved in the process).
- 5. Systematization of the tasks of the departments responsible for risk management. The said departments are involved in the process of identifying, analysing, assessing, and responding to risks and risk events. The departments cooperate with each other using the dedicated risk management software solutions.
- Updated assessment of NSD's observance of the CPMI/ IOSCO Principles for Financial Market Infrastructures. The assessment results are available on NSD's web site.

Plans for 2017

Priority objectives for 2017:

- To take steps to ensure operational reliability and failure-free operation of NSD's processes.
- To assist the company's business units in developing risk expertise in accordance with the ERM standards.
- To streamline the management reporting process in accordance with NSD's internal procedures for capital adequacy processes.

The plans for 2017 are to further improve risk management in the following strategic areas:



Priorities for 2017: ensure operational reliability of NSD's processes; assist NSD business units to develop risk expertise; and streamline the management reporting process in line with internal procedures 66

BUSINESS CONTINUITY $\mathcal{H}_{\mathcal{L}}$ īi) \sim 11111 4

The development of NSD's business continuity management system is required due to the company seeking to become a leader in the financial sector in terms of operational reliability. To meet this goal, the company undertakes a huge amount of work, including:

- improving the reliability of its IT systems (including improvement of IT system testing);
- taking measures aimed at preventing emergencies (including analysis of incidents and assessment of corrective actions);
- assessment of business continuity threats and risks;
- staff training (including large-scale tests);
- development of a backup site, as well as main and backup data centers; and
- improvement of interaction with key clients, counterparties, and service providers in terms of data and technology exchange.

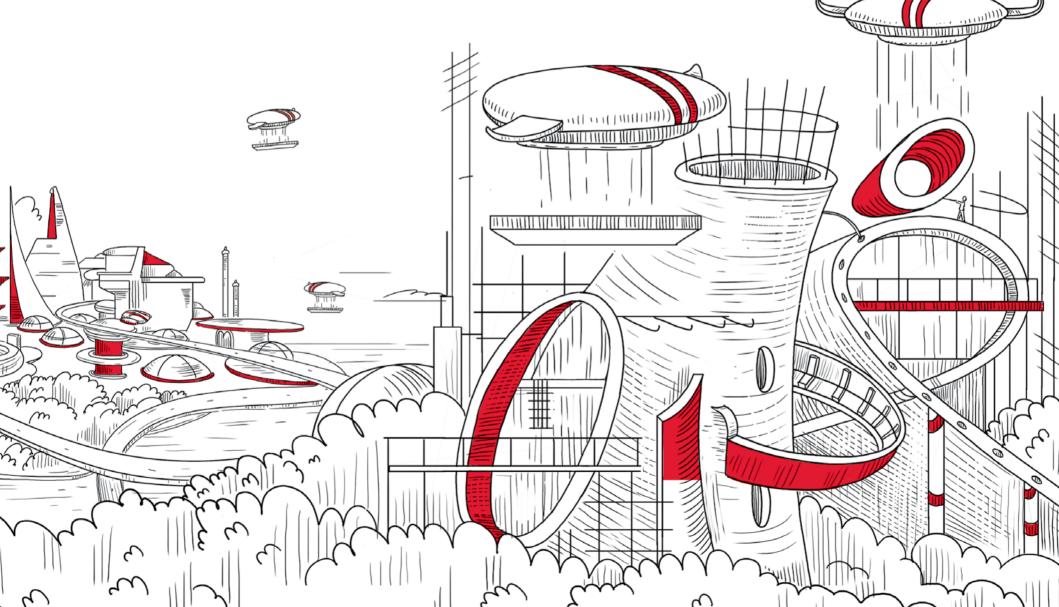
Specific attention was paid to ensuring uninterrupted and failure-free operation of the utilities infrastructure, including the systems designed to support NSD's facilities and business processes. In particular, tests were run to check equipment reliability and staff members' skills and abilities; the company's readiness to effectively respond to negative circumstances (including unforeseen ones) was confirmed; areas for improvement were identified; and a number of organizational and practical steps were taken to improve reliability of the infrastructure (such as technical inspection of utility systems and modernization of certain systems). To become a financial sector leader in operational reliability, NSD undertook an ambitious business continuity program that included improvements to its IT systems, emergency prevention measures, staff training, and enhanced interaction with key clients

The quality of business process recovery tests was improved, including through active involvement of clients and Bank of Russia's representatives as independent observers. Moreover, various scenarios of informational and functional interaction with the key counterparties (Moscow Exchange and others) were tested.

In 2016, there were 23 feasibility tests of the Disaster Recovery Plan (DRP). Of those, 10 tests were run using a rather negative scenario that involved operation of the IT systems recovered at the backup data center (operating under the current operational load for several days); two tests were aimed at checking NSD's operational reliability in an emergency that resulted in staff evacuation and temporary inability to use the main site; and one test involved the process of emergency issuance of rights to back-up personnel to work in IT systems / replacement of such rights.

The tests showed that NSD would be able to effectively respond to adverse circumstances, to recover its IT systems in reasonable time in the event of a technical failure or man-made disaster, and to ensure NSD's uninterrupted operation and a high level of operational reliability. 68

IT INFRASTRUCTURE AND INNOVATIONS



Technical Support of Customers

In 2016, the number of customer calls to NSD's Technical Support Service increased significantly — by 46% as compared to 2015. This was due to the launch of new products and the introduction of a great number of changes in the information systems. However, the percentage of problems resolved at the first point of contact (first line of technical support) remained high, 80% against 79% in the previous year. The level of implementation of the SLAs, which determine the quality parameters of IT services provided to other business units, exceeded 94%. This proves that NSD's IT team is capable of maintaining a stable quality of IT services regardless of the number of business tasks at hand.

Development of a Failure-Free IT Infrastructure

As part of the project for the harmonization of the critical information systems with the requirements of NSD's Technological Policy, the systems were upgraded and equipped with server hardware, data storage, as well as software and hardware backup tools. To ensure fast failover and continued operation of the systems, full-feature software and hardware suites were deployed in the backup data center. The integral estimate of the critical systems' equipment level and failure safety increased by more than 20%. After the launch of new products and a great number of changes in the information systems, customer calls to NSD's Technical Support Service increased by 46% over 2015. However, the percentage of problems resolved at the first line of technical support remained high — at 80%. The level of implementation of the SLAs exceeded 94%. This proves that NSD's IT team is capable of maintaining a stable quality of IT services regardless of the number of business tasks at hand

In 2016, the target configurations of three critical systems were deployed with the use of tools for clustering between the main and backup data centers. The resulting configuration enables the automatic switchover of operations between the data centers within the timeframes required for disaster recovery.

Testing IT System Disaster Recovery Plans

In 2016, more than 20 tests were run involving the switching of the automated systems critical for NSD's business continuity over to the backup data center. Some of the systems were tested for a longer period while functioning at the backup data center for up to 14 days under the current operational load. The implementation of the set of disaster recovery testing activities along with the improvement of the critical information systems' failure safety allowed for the harmonization of the disaster recovery timeframes of most of the systems with NSD's business continuity requirements.

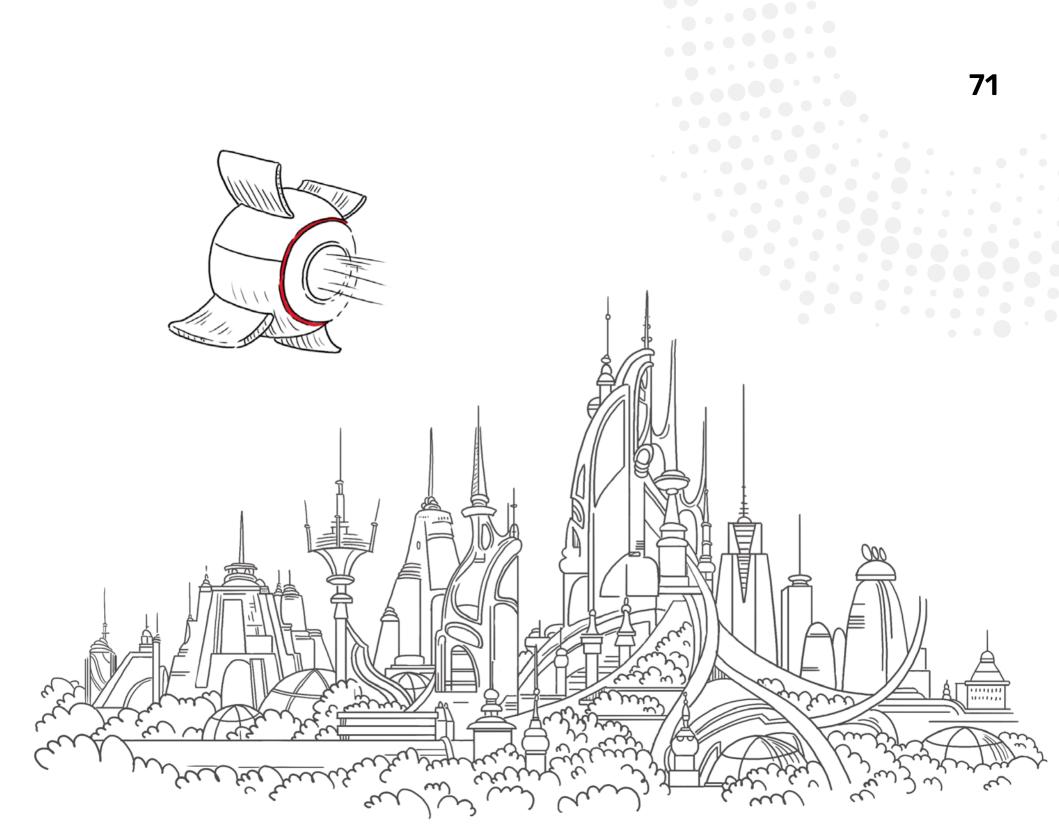
This allows using the two data centers of the Moscow Exchange Group to the maximum extent, mitigating the risks of IT services' unavailability, and reducing the downtime under scheduled maintenance.

Supporting Business Initiatives and Enhancing the IT Maturity Level

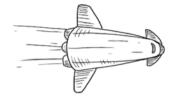
In 2016, NSD was assessed for compliance with two software quality standards, CMMI for Development and CMMI for Services. CMMI Institute, a division of Carnegie Mellon University (USA) involved in the development of the CMMI standard, awarded NSD maturity level 3 for the processes of software product development and service delivery with the use of proprietary software. NSD has become the first financial company in Russia and the CIS to be awarded with such a maturity level rating. The implementation of the CMMI process model ensures timely development of new products and higher resiliency of the existing systems given the rapid extension of the scope of software development now amounting to hundreds of thousands of man-days per year at NSD. CMMI helps control the quality and terms of implementation of platforms of differing complexities and architectures. As evidence of the results of these efforts, technological innovations introduced as part of the corporate actions reform in 2016 did not slow the progress of any other tasks aimed at supporting and developing the company's business lines, designing new products and services, and ensuring the reliability and fail- safe operations of NSD as an element of financial market infrastructure.

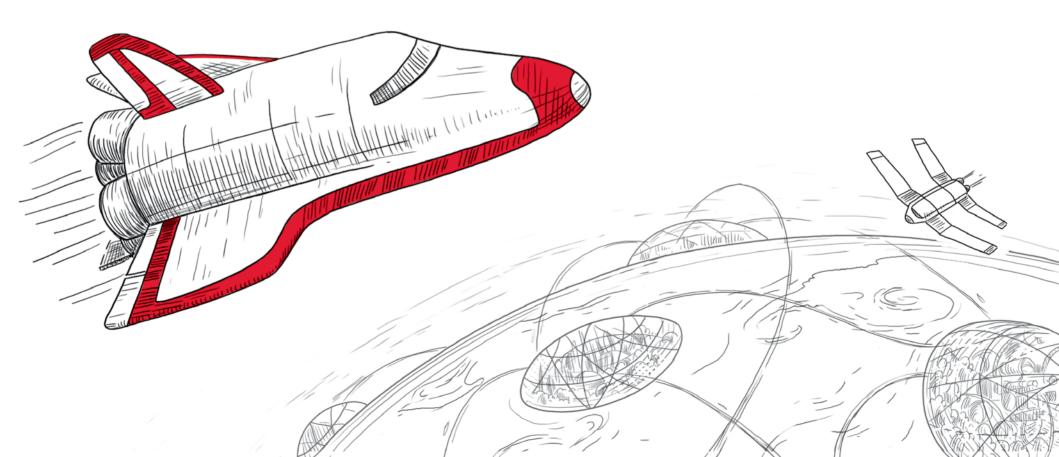
In addition, 2016 was the first year in which relatively low investment cost product and service prototyping made it possible to create a working sample of a product that could be used by a limited number of customers. Such an approach helps increase the number of products and services under simultaneous development and identify the market demand for them at an early stage.

NSD is the first financial company in Russia and the CIS to be awarded a maturity level rating of 3 by CMMI Institute — a division of Carnegie Mellon University (USA) involved in the development of the CMMI standard — for the processes of software product development and service delivery with the use of proprietary software



INTERNATIONAL COOPERATION





The main goal of NSD's international activities is to widen the scope of opportunities for its clients. In 2016, the Russian financial infrastructure was put to a serious test and showed its readiness to meet global challenges: for the first time, the CSD acted as the head depository in the Russian Ministry of Finance's issuance of Eurobonds. Russian market participants and the international professional community have both expressed their appreciation for that experience and for the qualitative changes taking place in Russia in recent years.

Observance of International Standards

In 2016, Thomas Murray affirmed NSD's CSD rating as AA-, which translates as 'very low overall risk' with a 'stable' outlook. For the third time in its history, NSD has undergone an independent audit for observance of the CPMI-IOSCO Principles for Financial Market Infrastructures. The audit has shown that NSD improved its observance of five out of 24 principles and was generally observant of all the principles. Of the 24 principles, NSD "fully" observes 10, "broadly" observes eight, and six principles are not applicable to NSD's operations. There are no principles that NSD does not observe.

In addition, in 2016, the Bank for International Settlements (BIS) assigned the highest rating to the Russian financial market infrastructure following the monitoring of the formation of the legislative framework for developed and emerging financial markets. Russia's FMI received the 4th level rating (highest possible) alongside with FMIs of Germany, France, UK, Hong Kong, Singapore, etc. The BIS monitoring involves a thorough analysis of the legislative framework for the Russian CSD's, trade repositories', and central counterparties' operations, allowing the national market to observe the CPMI-IOSCO Principles.

Integration into the Global Financial Infrastructure

Asia, and in particular China, remains an important dimension in the development of NSD's international cooperation. In addition to the memorandum of understanding (MoU) signed in 2015 with CCDC — China's central securities depository that provides public debt securities services — NSD signed MoUs in 2016 with the two other major infrastructure institutions in the Chinese market — HISTORY, NSD HAS UNDER-GONE AN INDEPENDENT AUDIT FOR OBSERVANCE OF THE CPMI-IOSCO PRINCIPLES

FOR FINANCIAL MARKET INFRA-STRUCTURES

TIMES IN ITS

In 2016, the Russian financial infrastructure was put to a serious test and showed its readiness to meet global challenges: for the first time, the CSD acted as the head depository in the Russian Ministry of Finance's issuance of Eurobonds. Russian market participants and the international professional community have both expressed their appreciation for that experience China Securities Depository and Clearing Corporation Limited (the CSD providing stock services and services for trading between the Hong Kong Stock Exchange and the Shanghai Stock Exchange), and the Shanghai Clearing House that settles bond trades in the interbank market of China and acts as a central counterparty. NSD continued its cooperation with China Central Depository and Clearing Co., Ltd (CCDC) — China's central securities depository providing services in the OTC public bond market — aimed at establishing a direct link between the Russian and Chinese markets.

There have been further developments in cooperation within the Association of Eurasian Central Securities Depositories (AECSD). The central securities depositories of the Republic of Korea (KSD) and Tajikistan have joined the AECSD as new members. In addition, NSD has opened a foreign nominee account with Georgian Central Securities Depository.

In 2016, for the first time, NSD took part in the World Forum of CSDs' Single Disclosure questionnaire project allowing CSDs to submit AGC DIGP and/or PFMI disclosure reports using a single harmonized template. NSD will disclose information on an annual basis and is taking active steps to involve other AECSD members in the project.

In 2016, NSD signed a MoU with Misr for Central Clearing, Depository and Registry (MCDR), Egypt's CSD. Also, in accordance with the MoU signed in 2015, a working meeting was held with representatives of Serbia's CSD, Central Securities Depository and Clearing House, at which potential cooperation was discussed.

In 2016, NSD expanded its correspondent nostro network in Europe by establishing correspondent relations with the

two largest banks in the region — JPMorgan AG, Frankfurt and Raiffeisen Bank International AG, Vienna.

Cooperation with the International Community

One of NSD's missions in the global arena is to inform investors, professional market participants, and regulators across global financial centers of the recent developments in the settlement infrastructure of the Russian securities market.

In 2016, NSD actively participated in both international and Russian forums and conferences, such as SIBOS, the Network Management Conference, and Moscow Exchange Forums in London and New York. Also, throughout the year, NSD continued arranging its own workshops and panel sessions during various events hosted by its partners.

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 1,233 ISINs and CFIs to Russian financial instruments in 2016, while as the SNA, NSD assigned 160 ISINs and CFIs.

In addition, NSD is a globally recognized pre-LOU, due to which all LEIs assigned by NSD are accepted by regulators,

market participants, and pre-LOUs in other countries. In 2016, NSD assigned 136 LEIs, accepted two LEIs assigned by pre-LOUs in other countries, and verified 407 LEIs. In 2016, the global regulator approved the accreditation process for organizations, including pre-LOUs, willing to continue acting as LOUs, and NSD has applied for obtaining accredited LOU status.

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 best international practices and standards and to ensure NSD's successful integration into global markets. NSD is a member of the following leading international organizations in the post-trade industry:

- Association of Eurasian Central Securities Depositories (AECSD);
- Word Forum of CSDs (WFC) as an AECSD member;
- European Central Securities Depository Association (ECSDA);
- Association of National Numbering Agencies (ANNA);
- International Securities Services Association (ISSA);
- National Finance Association (NFA);
- Russian National SWIFT Association (ROSSWIFT); and
- Association for Banking Information Security Standards (ABISS).

Asia, and in particular China, remains important to NSD's international cooperation. In addition to the memorandum of understanding (MoU) signed in 2015 with CCDC, NSD signed MoUs in 2016 with the two other major infrastructure institutions in the Chinese market — China Securities Depository and Clearing Corporation Limited and the Shanghai Clearing House

International Consulting Committee

Four 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 improving the Russian securities market infrastructure and services.

In 2016, the ICC held one meeting, at which ICC members discussed recent developments in the corporate actions reform in Russia, as well as global trends and best practices in the field of settlement infrastructure. The recommendations formulated by the meeting participants have provided the basis for further efforts by NSD's staff to improve NSD's products, services, and operational performance, and also to ensure that the Russian market infrastructure meets international standards.



NSD is committed to the principles of a socially responsible business through collaboration with field-specific funds, the holding of regular charity events, and the involvement of company employees in these activities. For two years now, NSD has been working in accordance with the concept of its "Care for Heritage" charitable efforts in the following four major areas: assistance to children, sports heritage, cultural and historical heritage, and ecological heritage.

NSD's social initiatives and activity in this field have been recognized by the expert community. NSD participates in the annual "Corporate Charity Leaders" project jointly implemented by the charitable organization Donors Forum, the PricewaterhouseCoopers multinational audit and consulting services network, and Vedomosti newspaper. NSD is also included in the ranking of the same name and maintains a stable position in it.

Assistance to Children

Traditionally, assistance to children is a key priority of NSD's charity program. In 2016, NSD provided needed aid to more than 200 children for their medical treatment and rehabilitation, purchase of specialized equipment, and other purposes.

Thanks to NSD's continued cooperation with the "Danilovtsy" volunteer movement, over an eight-month period volunteers visited children in healthcare facilities and conducted classes for them. These included the patients of Dmitry Rogachev National Research Center of Pediatric Hematology, Oncology and Immunology, Burdenko NeuroNSD is committed to the principles of a socially responsible business. For two years now, its "Care for Heritage" program has undertaken charitable efforts in the following four major areas: assistance to children, sports heritage, cultural and historical heritage, and ecological heritage

Major Results of NSD's Charitable Efforts in 2016

13

CHARITABLE ORGANIZATIONS RECEIVED SUPPORT

>209 000 RUB

WERE RAISED IN PRIVATE DONATIONS BY NSD'S EMPLOYEES

>200 CHILDREN RECEIVED TARGETED ASSISTANCE Through its collaboration with charitable foundations, NSD allocated funds to acquire expensive medicines, deliver courses of rehabilitation, and purchase equipment for residential care homes and special teaching rooms for disabled children. It also sponsored two sessions in the "Sheredar" rehabilitation center for 146 severely ill children

> surgery Institute, and Russian Children's Clinical Hospital. NSD also covered the wages of a psychologist from the mobile palliative care team of the "Miloserdie" (Mercy) medical center and a teacher of the toddler correctional group in Elizabeth's Children's Home that includes children with Down syndrome.

Through its collaboration with charitable foundations that provide targeted assistance to seriously ill children, NSD allocated funds to acquire expensive medicines, deliver courses of rehabilitation, and purchase equipment for residential care homes and special teaching rooms for disabled children. In addition, NSD sponsored two sessions in the "Sheredar" rehabilitation center for 146 children suffering from serious diseases.

NSD continues implementing its long-term joint project with the charitable fund "Deti Nashi" (Our Children) aimed at organizing summer camp training and integration sessions for children from childcare facilities and those living in families. In all, 28 children participated in the joint program in 2016, the third year of its implementation. They went to the village of Kabardinka where they took part in workshops and psychological seminars focused on the development of communication skills, enhancement of children's independence and responsibility in decision making. In just three years of the project's implementation, 59 children had an opportunity to undergo special training and courses. The main objectives of the project are to socialize the trainees, develop communication skills in orphaned children and make them more independent. Great attention is also paid to the development of qualities and skills necessary for their future independent life.

For many years now, NSD has been providing aid to the Udelnoe Specialized Children's Home under its sponsorship, which was reorganized into the Udelnoye Center of Extracurricular Activities in 2016. The company continued cooperating with the new organization and helped it equip an art studio for former residents of the children's home who are now living in foster families.

Sports Heritage

NSD's financial aid allowed the wheelchair dance club to lease six special wheelchairs so that its new members could practice dancing.

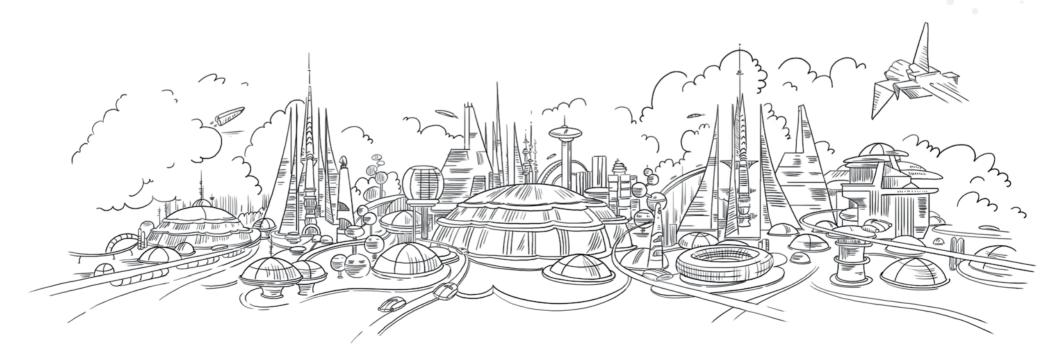
NSD also sponsored a trip to the Acrobatic Rock 'N' Roll World Cup in Krakow, Poland, for a 13-year-old girl who is dependent on retirees and is a member of the "Positive" Dance Club.

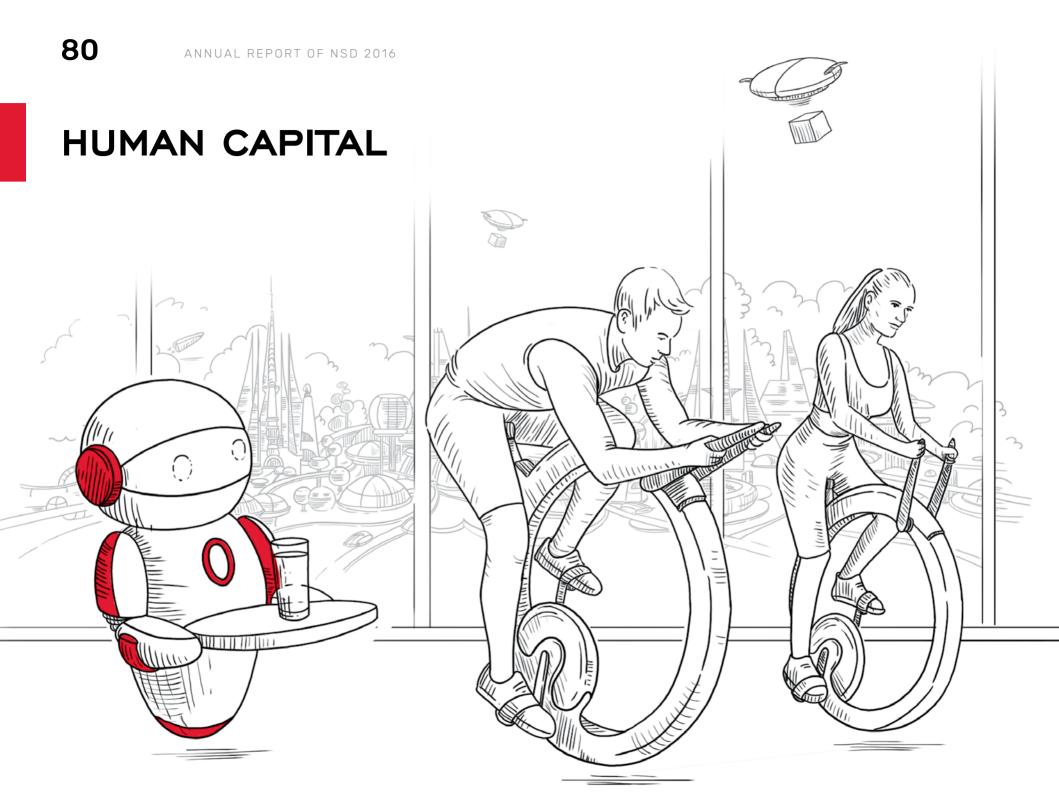
Ecological, Cultural and Historical Heritage

In 2016, two areas of our charitable efforts — Cultural and Historical Heritage and Ecological Heritage — were supported for the first time by donations from NSD's employees. Members of two field-specific charitable organizations (the Disabled and Elderly People Aid Fund "Starost v Radost" (Old Age is Fun) and the Homeless Animals Fund "RAY") were invited to a charity fair held in the NSD office on New Year's Eve. Funds raised during the event were allocated to cover the wages of a nurse in a nursing home and to purchase food for homeless animals living in shelters.

Corporate Volunteering

NSD continues focusing significant attention on the involvement of its employees in social projects. In 2016, the company's office hosted a Donor's Day and two charity fairs. The events were held with the assistance of the Blood Supply Service and such charitable foundations as "Podari Zhizn" (Gift of Life), "Volontery v Pomosch Detyam Sirotam" (Volunteers to Aid Orphaned Children), "Deti Nashi" (Our Children), "Starost v Radost" (Old Age is Fun), and "RAY". NSD also arranged a campaign to raise funds for the medical treatment of a 6-year-old child with cancer. A total of RUB 209,000 in donations were raised by NSD's employees during all the charity events. The money was given to charitable organizations to run their current programs.





Development of Corporate Culture

At NSD, we place a special emphasis on the development and strengthening of our corporate culture that can ensure a conscious progress of the company, understanding of its purpose, and building of a team of like-minded people. A highlight of the year was the update of the corporate values aimed at defining relationships between the employees within the company and their relationships with customers and partners, as well as at significantly impacting the company's development and the efficiency of its business processes.

To successfully integrate the updated values into the company's operational processes, the following set of measures was implemented:

- more than 30 of the company's executives participated in special training programs on how to communicate ideas regarding key values to employees;
- more than 170 respondents and 98 executives took part in a 360-degree feedback assessment of their compliance with the company's values;

MORE THAN 30

OF THE COMPANY'S EXECUTIVES PARTICIPATED IN SPECIAL TRAINING PROGRAMS ON HOW TO COMMUNICATE IDEAS REGARDING KEY VALUES TO EMPLOYEES

- a variety of value-related communication activities were carried out for the employees; and
 a system of non-financial incentive of units
- a system of non-financial incentives for the employees' active participation in the development and support of the corporate culture was devised and introduced.

Enhancement of Professional Expertise

Investment in the professional expertise and personal efficiency of employees and executives remains one of the priorities of the company's investment policy.

In 2016, one-half of all NSD employees took part in field-specific seminars, trainings, and conferences. This amounted to more than 9,000 hours of training.

Throughout the year, programs for the development of management skills were implemented both for the employees who had no management experience but demonstrated a high management potential and for experienced managers. A total of 55 executives of different levels participated in various leadership development programs.

Recruitment of Young Talents

In 2016, the Graduate Program NSD was implemented for the training of finance students: a multi-stage competitive selection was carried out, curricula were developed, and instructors were chosen and trained. There were six finalists, including the most talented and promising students, four of whom were invited to join the company following a one-year training course.

Along with the long-term program, about 20 students completed short-term training programs with the company. NSD actively participates in job fairs and career days at Moscow's leading universities. NSD's best experts and executives are always willing to respond to proposals to hold workshops for students and share their hands-on experience with them.

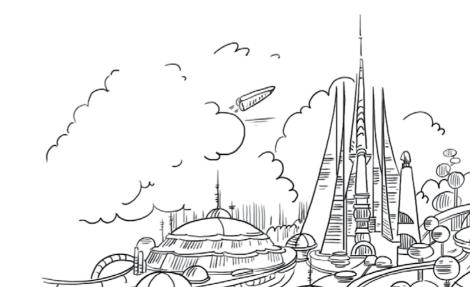
Achievement of Work-Life Balance

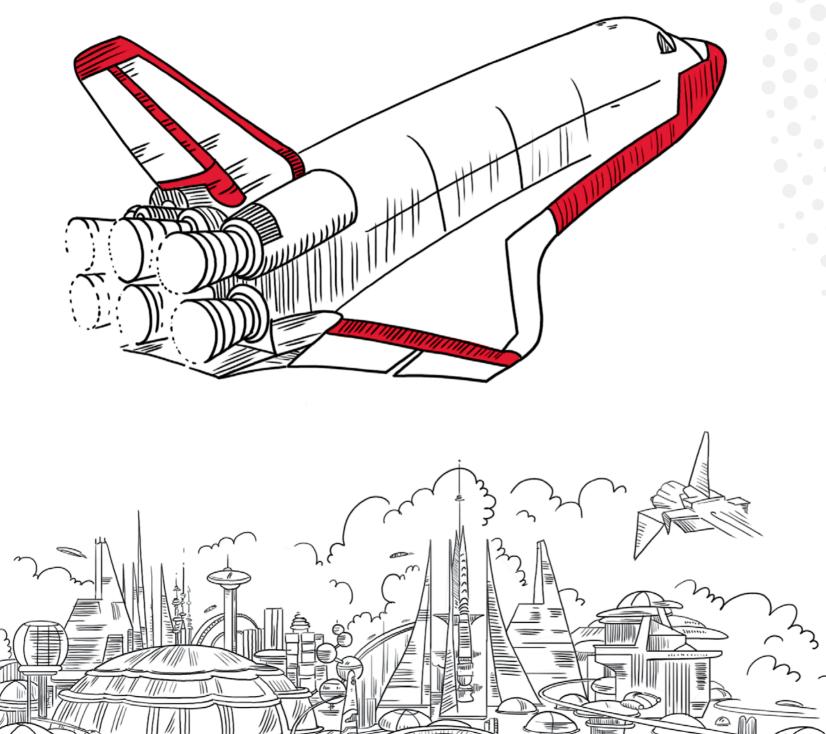
Work-life balance programs aim to assist employees achieve success both at work and in their personal lives.

Without leaving NSD's office, employees can use healthcare, dry cleaning, and footwear repair services, as well as purchase theatre tickets, take a rest in the relaxation room,

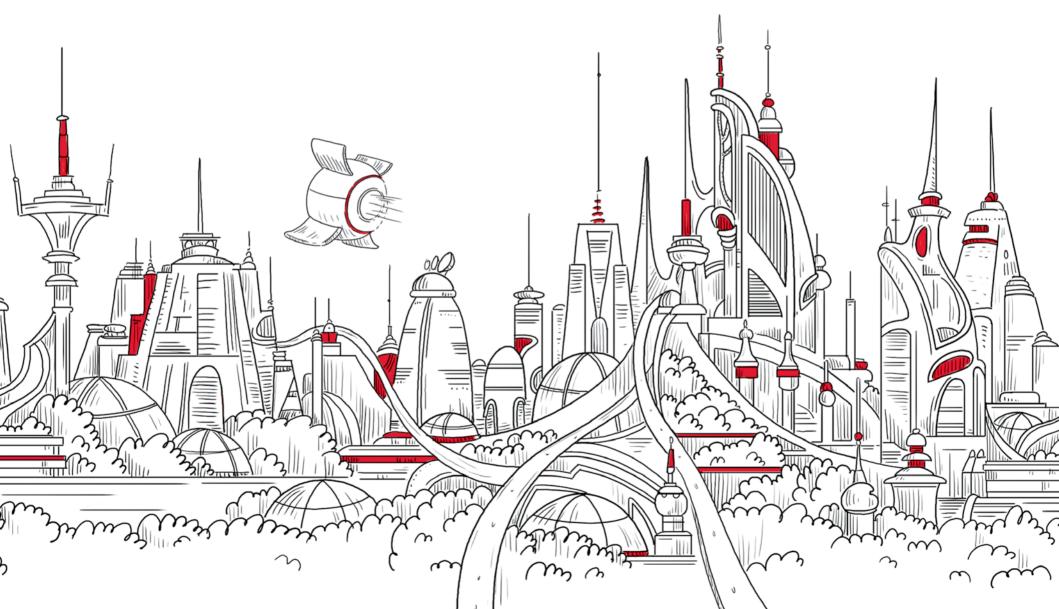
In 2016, one-half of all NSD employees took part in field-specific seminars, trainings, and conferences. This amounted to more than 9,000 hours of training. Programs for the development of management skills were implemented both for experienced managers and for employees who had no prior management experience but who demonstrated high management potential or do yoga. They can also play volleyball and soccer, join the corporate triathlon team, or become a member of the team of players in the corporate intellectual game "What? Where? When?"

In the autumn of 2016, a major "Family Day" event was held for employees' children aged 3 to 16. They spent a full day in the company's offices where they were told about their parents' jobs and NSD's activities as well as provided with tips on their future development. In return, the children wrote expressions of gratitude to their parents for their professional achievements.





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.

In particular, the Rules require that NSD act in accordance with the principle of transparency towards its shareholders, clients, business partners, counterparties, governmental authorities, employees, and other stakeholders. In accordance with the principle of transparency, the proper level of information disclosure is ensured by compliance with the following rules:

- Information disclosure practices must be consistent with NSD's and Moscow Exchange Group's development strategy (goals and objectives);
- Information disclosed must be accurate and accessible;
- Information must be disclosed in a timely fashion, regularly, and on a non-discriminatory basis;
- A reasonable balance must be maintained between NSD's transparency and NSD's and Moscow Exchange Group's commercial interests;

In accordance with information disclosure rules, NSD upholds transparency for its shareholders, clients, business partners, counterparties, governmental authorities, employees, and other stakeholders

- The requirements of the Russian laws and other regulations concerning trade secrets, bank secrecy, or insider information, as well as the requirements of NSD's internal regulations applicable to dealing with confidential information must be complied with;
- Standards of professional ethics must be complied with; and
- Information distribution channels must ensure free, easy, and inexpensive access by interested parties to any information disclosed.

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 are¹²:

- 1. Olga Gordienko, Chief Accountant, Moscow Exchange.
- 2. Olga Melentieva, Head of IFRS Reporting, Moscow Exchange.
- 3. Vladimir Sukhachev, Head of Internal Audit Service, Moscow Exchange.

The proceedings 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 2016, the Audit Committee of the Supervisory Board resolved to propose that the Supervisory Board recommend that the annual General Meeting of Shareholders approve the appointment of Ernst & Young Vneshaudit LLC as auditors for NSD until the annual General Meeting of Shareholders in 2017.

Full name

Ernst & Young Vneshaudit Limited Liability Company

Short name Ernst & Young Vneshaudit LLC

Registered Office

77 Sadovnicheskaya Naberezhnaya, Bldg. 1, Moscow 115035

Telephone and fax numbers

Tel.: +7 495 755-97-00 Fax: +7 495 755-97-01

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) Address: 3/9 Tretiy Syromyatnicheskiy Pereulok, 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 2016

12 As of 31 December 2016. On 31 May 2016, the annual General Meeting of Shareholders approved the appointment of Ernst & Young Vneshaudit to audit the company's RAS and IFRS financial statements until the annual General Meeting of Shareholders in 2017.

Ernst & Young Vneshaudit LLC 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 Moscow Exchange's CEO.

Ernst & Young Vneshaudit LLC 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 law. 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 all tax relief was obtained lawfully.

An audit includes several phases:

On 31 May 2016, the annual General Meeting of Shareholders approved the appointment of Ernst & Young Vneshaudit to audit the company's RAS and IFRS financial statements until the annual General Meeting of Shareholders in 2017. The firm will conduct independent audits of NSD's accounting system, financial statements, and tax reports, financial results, and NSD's internal control system, and present an auditor's report on NSD's financial statements and a detailed information report to Moscow Exchange's CEO

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 strives for strict compliance 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 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 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 a non-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 maintain information security (safeguard the company's interests and objectives in the information field defined as a totality of information, information infrastructure, parties involved in information collection, generation, distribution, and use, and the framework of regulation of resulting relations);

- ensure compliance with the applicable Russian laws, Bank of Russia's regulations, self-regulatory organizations' standards, and NSD's constitutional documents and internal regulations;
- prevent NSD's or its employees' involvement in illegal activities (including money laundering and terrorist financing), and ensure that relevant information is reported to competent authorities and the Bank of Russia in a timely fashion in accordance with the Russian laws.

NSD's Supervisory Board, Executive Board, and Executive Board Chairman are actively involved in managing the internal control system. NSD has the Audit Committee, an advisory body of the Supervisory Board established to ensure the effectiveness of internal controls and internal audits, to analyse NSD's budget utilization reports, and to make recommendations to NSD's Supervisory Board and executive bodies to enable them to take decisions on those matters in accordance with the scope of their authority.

In 2016, NSD followed a risk-oriented approach in implementing internal controls.

At NSD, there are two departments 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 is responsible for ongoing control over NSD's operations, including by the CSD's Controller, the Professional Securities Market Participant's Controller, the Clearing House's Controller, the AML/CTF Officer, and the Insider Trading Compliance Officer.

In 2016, the Supervisory Board approved the amended and restated Code of Professional Ethics and the Conflict of Interest Prevention Policy; efforts were continued to implement compliance management tools and anti-bribery policy and to comply with foreign jurisdictions' requirements relating to tax risks; and steps were taken to adapt NSD's processes to the OECD Common Reporting Standard (the Standard for Automatic Exchange of Financial Account Information). The work aimed at preventing money laundering and terrorist financing is performed strictly in compliance with the Russian laws.

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

The multi-level internal control system built by NSD enables the company to efficiently identify, manage, and mitigate risks in all areas of its business

2

DEPARTMENTS — THE IAD AND ICD — ARE RESPONSIBLE FOR INTERNAL CONTROL ON A CONTINUOUS BASIS

Information Security

The work to ensure information security (IS) at NSD is organized in accordance with the Russian laws, the package of standardization documents issued by the Bank of Russia (entitled "Ensuring Information Security at Organizations of the Banking Industry of the Russian Federation") (the "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 operations 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 analysing business processes, preparing terms of reference, implementing hardware and software, and performing an expert review of contracts and agreements. In addition, the Information Security Division regulates processes designed to separate users' access, sets up and maintains information protection tools, allocates access rights, and maintains key information.

An independent audit of NSD for compliance with the requirements set out in the BR ISBS Package and Bank of Russia's Regulations No. 382-P dated 9 June 2012 "On the Requirements to Information Security in the Course of Funds Transfers and the Procedure for Monitoring by the Bank of Russia of Compliance with Such Requirements" has confirmed that NSD complies with the Bank of Russia's requirements and observes the international Principles for Financial Market Infrastructures.

To maintain and raise its IS level, NSD worked to improve information protection tools and to enhance security of source codes of business IT systems under development.

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

In the reporting year, a source code analysis and improvement project was successfully implemented as part of the information security efforts and in line with the best programming practices. 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 development and use of computer hardware and software applications.

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 shortcomings discovered.

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

The Information Security Division continuously improves the methodological and technological support of its activities. In particular, the Information Security Division regularly analyses legislative and regulatory changes, providing the basis on which NSD can make necessary amendments to its internal regulations in a timely fashion, and implements and modernizes security and protection technology solutions.

Preventing NSD's Involvement in Unlawful Activities

Combating Money Laundering and Terrorist Financing

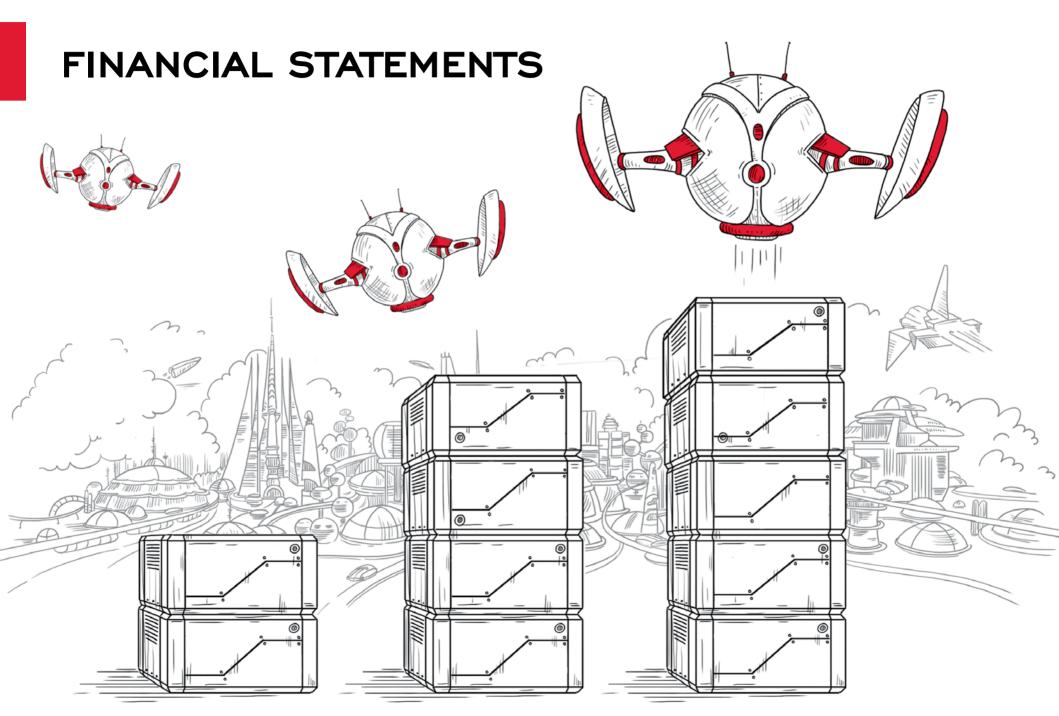
The ongoing monitoring of our clients' activities and transactions and the KYC processes are intended to ensure compliance with the Russian statutory requirements, to mitigate risks relating to money laundering and terrorist financing, and to prevent NSD's and its clients' involvement in unlawful activities. In particular, if NSD has reason to believe that clients make suspicious transactions in their accounts, NSD meets with such clients, discontinues their remote access to NSD's services, applies restrictive tariffs, or takes other measures in accordance with the Russian laws and the Bank of Russia's recommendations.

In 2016, to improve the effectiveness of the regulatory reporting process, NSD implemented a unique AML/CTF software solution that allows NSD to continuously monitor, identify, prevent, and automatically report suspicious transactions in clients' accounts.

The ongoing monitoring of our clients' activities helps ensure compliance with the Russian statutory requirements and prevent NSD and its clients from participating in unlawful activities. If NSD has reason to believe that clients make suspicious transactions in their accounts, NSD meets with such clients, discontinues their remote access to NSD's services, applies restrictive tariffs, or takes other measures in accordance with the Russian laws

NSD's Interests in Other Entities

Entity's Full and Short Name	Registered Office	Interest in the Share Capital, %
Stock Company Saint-Petersburg Currency Exchange (SPCEX)	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	0.0145



Balance Sheet as of 1 January 2017, Rub Thousands

NO.	ITEM	AT THE REPORTING DATE	AT THE BEGINNING OF THE REPORTING YEAR	
I. ASS	I. ASSETS			
1	Cash	2,690	4,757	
2	Amounts due from the Central Bank of the Russian Federation	2,691,974	18,071,735	
2.1	Obligatory reserves	0	0	
3	Amounts due from credit institutions	77,136,511	95,512,431	
4	Financial assets at fair value through profit or loss	11,120,159	6,183,563	
5	Net loans receivable	22,627,433	8,688,378	
6	Net investments in securities and other financial assets available for sale	9,233	9,233	
6.1	Investments in subsidiaries and associates	0	0	
7	Net investments in securities held to maturity	0	0	
8	Current tax prepayments	46,182	381,126	
9	Deferred tax asset	67,535	79,254	
10	Fixed assets, intangible assets and inventories	4,639,325	2,897,199	
11	Non-current assets held for sale	0	0	
12	Other assets	459,771	1,341,389	
13	Total assets	118,800,813	133,169,065	
II. LIA	BILITIES			
14	Loans, deposits and other amounts due to the Central Bank of the Russian Federation	179	106	
15	Amounts due to credit institutions	100,018,911	106,353,470	
16	Amounts due to customers other than credit institutions	4,367,357	7,659,458	
16.1	Deposits of (amounts due to) individuals, including individual entrepreneurs	0	0	
17	Financial liabilities at fair value through profit or loss	0	0	
18	Debt obligations issued	0	0	

	AT THE REPORTING DATE	AT THE BEGINNING OF THE REPORTING YEAR	
19 Current tax payable	37,233	16,042	
20 Deferred tax liability	0	0	
21 Other liabilities	3,759,999	6,836,699	
22 Allowances for potential losses on credit-related contingent liabilities, other potential losses and transactions with offshore residents	131	40	
23 Total liabilities	108,183,810	120,865,815	
III. EQUITY			
24 Shareholders' (participants') equity	1,180,675	1,180,675	
25 Treasury shares	0	0	
26 Share premium	0	0	
27 Reserve fund	177,101	177,101	
 Fair value revaluation of securities available for sale decreased by deferred tax liability (increased by deferred tax asset) 	0	0	
29 Revaluation of fixed assets and intangible assets decreased by deferred tax liability	0	0	
30 Revaluation of liabilities for long-term benefits	0	0	
31 Revaluation of hedging instruments	0	0	
32 Grant financing funds (contribution to company's assets)	0	0	
33 Retained earnings (losses) of prior years	6,333,728	6,333,728	
34 Unutilized profit (loss) for the reporting period	2,925,499	4,611,746	
35 Total equity	10,617,003	12,303,250	
IV. OFF-BALANCE SHEET LIABILITIES			
36 Irrevocable liabilities of credit institution	0	0	
37 Guarantees and sureties issued by credit institution	0	0	
38 Non-credit related contingent liabilities	0	0	

Statement of Financial Performance for the Year 2016, Rub Thousands

Section I. Profit and Loss Statement

NO.	ІТЕМ	FOR THE REPORTING PERIOD	FOR THE CORRESPONDING PERIOD OF THE PRIOR YEAR
1	Total interest income, including from:	2,435,360	3,225,236
1.1	Placements with credit institutions	1,108,867	2,586,087
1.2	Loans issued to customers other than credit institutions	0	0
1.3	Finance lease services	0	0
1.4	Investments in securities	1,326,493	639,149
2	Total interest expense, including on:	98,769	14,022
2.1	Funds raised from credit institutions	98,769	14,022
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)	2,336,591	3,211,214
4	Total change in allowance for potential losses on loans receivable and similar debt, amounts placed on corre- spondent accounts, and accrued interest income, including:	0	13
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	2,336,591	3,211,227
6	Net gains from financial assets at fair value through profit	474,144	228,145
7	Net gains from financial liabilities at fair value through profit	0	0
8	Net gains from securities available for sale	0	-195,984
9	Net gains from securities held to maturity	0	0
10	Net gains from dealing in foreign currencies	-1,627,408	282,591
11	Net gains from revaluation of accounts in foreign currency	1,548,135	626,915
12	Net gains from transactions with precious metals	0	0
13	Income from participation in the capital of other legal entities	0	484,576
14	Fee and commission income	4,011,040	3,922,234
15	Fee and commission expense	497,989	580,478
16	Change in allowance for potential losses on securities available for sale	0	0
17	Change in allowance for potential losses on securities held to maturity	0	0

NO.	ITEM	FOR THE REPORTING PERIOD	FOR THE CORRESPONDING PERIOD OF THE PRIOR YEAR
18	Change in allowance for other losses	-65,592	-11,298
19	Other operating income	39,313	128,360
20	Net income (expense)	6,218,234	8,096,288
21	Operating expenses	2,459,563	2,249,028
22	Profit (loss) before tax	3,758,671	5,847,260
23	Tax refund (expense) ¹³	833,172	1,235,514
24	Profit (loss) from continuing operations	2,925,499	4,611,746
25	Profit (loss) from discontinued operations	0	0
26	Profit (loss) for the reporting period	2,925,499	4,611,746

Section II. Other comprehensive income

NO.	ITEM	FOR THE REPORTING PERIOD	FOR THE CORRESPONDING- PERIOD OF THE PRIOR YEAR
1	Profit (loss) for the reporting period	2,925,499	4,611,746
2	Other comprehensive profit (loss)	×	×
3	Items that may not be reclassified subsequently to profit or loss, total, including:	0	0
3.1	Changes in revaluation of fixed assets reserve	0	0
3.2	Changes in reserve of liabilities revaluation in accordance with defined benefit pension plan	0	0
4	Income tax on items that may not be reclassified subsequently to profit or loss	0	0
5	Other comprehensive profit (loss) that may not be reclassified subsequently to profit or loss, net of income tax	0	0
6	Items that may be reclassified subsequently to profit or loss, total, including:	0	0
6.1	Changes in fair value reserve for financial assets available for sale	0	0
6.2	Changes in cash flow hedge fund	0	0
7	Income tax on items that may be reclassified subsequently to profit or loss	0	0
8	Other comprehensive profit (loss) that may be reclassified subsequently to profit or loss, net of income tax	0	0
9	Other comprehensive profit for the year, net of income tax	0	0
10	Financial result for the reporting period	2,925,499	4,611,746

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

13 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.



CONTACT DETAILS

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