FIVE YEARS OF OPERATION AS RUSSIA’S CSD
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Dear Shareholders, Clients, and Partners,

Last year was the fifth anniversary of NSD acting as Russia’s central securities depository. For all of those who were involved in building the national securities market infrastructure, it is clear that those five years were a period of tectonic transformation of the country’s entire financial market. As a result, an institution fully integrated into the global financial system was established and highly regarded by both Russian and foreign clients and partners.

The fact that NSD directly contributed to the success of Eurobond issuance by the Russian Ministry of Finance, by taking on the new role of head depository in the process, shows that it took just five years for Russia to build infrastructure able to compete on equal footing with global custodial institutions.

The huge changes that have affected virtually all aspects of the Russian financial market evolution have become a challenge not only for NSD’s management: implementation of new solutions requires time and investment on the part of its clients, too. This is why convenience and reliability of technology are the key challenges for NSD.

Today, NSD is not just the central securities depository, but also a systemically important trade repository and a nationally important payment system. Only companies with a clear strategic vision, capability to change, and appetite for innovations are set for success and growth, and this is how NSD is operating, becoming an increasingly important pillar of the national financial system and offering its clients technology of the future today.

Bella Zlatkis,
Chairperson of the Supervisory Board, NSD,
Deputy Chairperson of the Executive Board, Sberbank
Dear Shareholders, Partners, and Colleagues,

2017 was a special year for National Settlement Depository. Over the course of five years as Russia's central securities depository, NSD showed a high level of professionalism and customer centricity, technological leadership, and stress resistance.

Within a very short time, NSD built a world-class infrastructure and introduced a contemporary and highly demanded suite of post-trade services and products. Over the last five years, NSD delivered the results that international experts say it took decades for the global industry to achieve. I can proudly assert that in certain areas of business NSD has become a benchmark for the CSD industry.

In 2017, we were behind some initiatives thanks to which NSD was acclaimed an innovative leader in the Russian financial infrastructure. In particular, NSD, Raiffeisenbank, and telecommunications company MegaFon were the first to issue and settle commercial papers using blockchain technology. I strongly believe that new digital technology, if supported by legislators, could substantially improve competitiveness of the Russian financial market.

The past year also saw successful completion of the wide-scale corporate actions reform. The voting technologies offered by NSD to institutional investors (e-proxy voting) and private investors (e-voting) were field-tested during the period of major corporate action events in the market. The e-voting system was first tested during the annual general meeting of the largest Russian commercial bank, Sberbank, and set the new trend for the industry. In 2017, the convenience of the system was also appreciated by the shareholders of Alrosa and Moscow Exchange at their extraordinary general meetings.

It is worth noting that we work in a live and ever-changing environment. In our industry, it is no more sufficient to implement state-of-the-art technology products and adapt global solutions to the national market. Instead, it is required to play a proactive and leading role to be able to respond to future challenges and to meet the expectations and needs of our current and future stakeholders.
NSD: A GLOBAL POST-TRADE INDUSTRY PLAYER

Today, NSD is the largest regional ICSD. NSD provides services for the safekeeping of global certificates and depository recordkeeping of 100% of Russian federal loan bond (OFZ) issues and 99% of Russian corporate and regional (sub-federal or municipal) bond issues. More than 15 thousand securities issues with the total value of RUB 39.4 trillion are held in custody at NSD, with foreign securities issues accounting for more than 50%.

In 2014, the largest international securities depositories, Euroclear and Clearstream, gained full access to the Russian securities market, thus providing foreign companies and investment funds with greater investment opportunities. Thanks to that move, more than 30% of holders of Russian OFZ bonds are foreign investors using NSD’s infrastructure. Currently, NSD’s correspondent network includes also CSDs of CIS countries.

In 2016, NSD was designated the head depository to arrange the issuance of USD 3 billion Eurobonds by the Russian Ministry of Finance. Thanks to the successful Eurobond issuance, NSD has maintained its status of full-fledged player in the global post-trade infrastructure industry.

The operational audit conducted in compliance with the ISAE 3402 Type II standard confirmed that controls at NSD were suitably designed and operating effectively.

NSD’s SWIFT Service Bureau was recognized as the most reliable in the region and one of the 14 most reliable service bureaus across the globe.

In compliance with the FATCA requirements, NSD was registered with the U.S. Internal Revenue Service and was assigned a Global Intermediary Identification Number. NSD is the first Russian company to receive the Qualified Intermediary (QI) status for U.S. securities.

As the National Numbering Agency for Russia and the Substitute Numbering Agency for the CIS countries, NSD assigns ISINs, CFIs, and FISNs to securities. In addition, NSD is a Local Operating Unit (LOU) assigning Legal Entity Identifiers (LEIs).

NSD meets all requirements to an “Eligible Securities Depository” and satisfies the criteria set forth by Rule 17f-7 under the U.S. Investment Company Act of 1940.

In addition to CSD services, the company offers its clients Payment System services, Trade Repository services, information products and services, collateral management services, and an ever-growing number of IT services.

In 2014, the Bank of Russia recognized NSD as a systemically important central securities depository, systemically important settlement depository, and systemically important trade repository. On 25 December 2012, the NSD Payment System was recognized by the Bank of Russia as a systemically important payment system, and on 16 July 2014 – as a nationally important payment system.

NSD was one of the initiators of the corporate actions reform in Russia. The reform involved automation of corporate actions processing, implementation of the ISO 20022 standard, and tax management streamlining. The key provisions of the reform took effect on 1 July 2016. The laws were passed to assign the status of Corporate Actions Center and Corporate Information Center to NSD. In December 2017, NSD’s Valuation Center was officially accredited by the Bank of Russia, the first and, so far, the only one in Russia.

Today, NSD is a reliable and trusted supplier of hi-tech post-trade services and infrastructure solutions for financial market players.
NSD'S BUSINESS PRIORITIES AND DEVELOPMENT PROSPECTS

Seeking to offer its clients advanced post-trade services, NSD is constantly working on improving its six strategic business lines.

CSD

As the CSD, NSD is a custodian of all assets in the Russian securities market. One of the CSD's priorities is, therefore, to retain and increase the number of foreign securities in custody. Over the past three years, the value of foreign securities in custody at NSD almost tripled to the equivalent of RUB 5.3 trillion. NSD offers settlement services on a free-of-payment basis and delivery-versus-payment basis (DVP 1, 2, and 3 models). The prospective areas for CSD's development include commercial papers, digital assets, UIT unit issuance and redemption platforms, and integration with marketplaces.

Trade Repository

NSD's Trade Repository is Russia's largest and systemically important market infrastructure institution for registration of OTC repo and derivatives trades. Since the launch of trade reporting, the Trade Repository has registered more than 17 million contracts valued, in aggregate, at RUB 1,685 trillion. Services for distribution of information on registered contracts, reporting error minimization, and roll-out and development of additional services to improve reporting quality are priorities for the Trade Repository. The scaling of Trade Repository's technology for its use in marketplace platform projects is another prospective development area.

Payment System

The NSD Payment System allows clients to make payments both in Russian rubles and foreign currencies, has a wide correspondent network, and makes use of reliable and advanced solutions to provide bank services. The annual average volume of payments going through the NSD Payment System exceeds RUB 300 trillion.

The NSD Payment System is a nationally and systemically important payment system. More than 800 companies operating in the financial market are users of the Payment System.

The priorities for the Payment System development are integration with the Bank of Russia’s prospective payment system and involvement of new market player categories — corporates, asset managers, non-governmental pension funds, and others — in the use of the NSD Payment System for payments.

Tri-party Services

NSD provides safekeeping services for clients' assets valued at more than RUB 40 trillion. Those assets are used as collateral in clients' trades. NSD's collateral management technology is particularly in demand in repo trades and allows market players to monitor collateral adequacy, issue margin calls, and generate collateral reporting on a daily basis. The largest users of NSD's collateral management services are the Bank of Russia, the Russian Federal Treasury, and banks. In the nearest future, new creditors operating in the repo market, such as regional governments and non-budgetary funds, are expected to sign up for collateral management services. In addition, new asset types (foreign securities) will be acceptable as collateral in trades.

1 The total value of foreign securities held in custody at NSD, including Eurobonds issued by Russian governmental authorities.
Information Services

NSD sets and maintains standards in data processing in the Russian financial market and provides market players and the regulator with unique reference information that has the legal and actual status of ‘golden copy’. Reliability, quality, and convenience of NSD’s information infrastructure is recognized both in Russia and abroad. All institutions active in the Russian financial market use NSD’s data and standards in their daily operations. Major global financial data vendors re-distribute NSD’s data in the global markets.

NSD’s advanced technology platform, nsddata.ru, offers a wide range of customized information services, including official reference information on all financial instruments in custody at NSD, through news feeds, reference directories, API NSD structured data, DISC NSD terminal, NSD’s Valuation Center products, and other information services.

Prospective areas for development include:

• Launch of a ‘single window’ for corporate information disclosure in cooperation with news agencies authorized by the Bank of Russia;

• Roll-out of NSD RegTech services, including as part of the reporting process in XBRL format;

• Extension of the methodological framework of NSD’s Valuation Center and launch of new products for separate financial instrument classes; and

• Implementation of modern approaches to information asset management, including development of Big Data products.

IT services

NSD is a supplier of high-tech post-trade services. IT services constitute a unique foundation for the establishment, at NSD, of a national platform for providing various client categories (including, in the longer term, individuals) with reliable and advanced solutions for access to financial products, financial messages transit, and IT redundancy. In 2017, 19 new users signed up for SWIFT connectivity services (SWIFT Service Bureau services), and the total number of users reached 67 (55 in 2016). The average daily traffic of Service Bureau’s clients increased by 48% against 2016, to 11,257 messages a day. In 2017, NSD devised and approved the concept of a ‘financial messages transit’ service based on NSD’s existing electronic data interchange (EDI) platform. The new project will allow NSD to increase the number of transit service users thanks to the support provided to data interchange between corporate clients and banks through the use of ISO 20022 messages.

The prospects of IT services development lie in the following areas:

• Improvement of additional services offered to SWIFT Service Bureau’s clients (technical support, integration solutions, format conversion);

• Launch of the Transit 2.0 platform for financial messaging in the ISO 20022 format between corporates and banks; and

• Development of blockchain-based platforms for e-voting, settlement of trades in commercial papers, and record keeping of digital assets resulting from ICOs.
ANNUAL REPORT OF NSD FOR 2017

01. NSD in 2017

Value of securities held in clients' securities accounts as of the end of the reporting period
RUB trillion
2017
39.4
RUB trillion

Total number of depository transactions for the 12M reporting period, calculated in accordance with NSD's methodology in mln
2.6 2.3 2.6 2.5 2.4 2.7 3.0

Total value of depository transactions for the 12M reporting period, calculated in accordance with NSD's methodology
RUB trillion
2017
401
RUB trillion

Total net profit and income under the IFRS for the 12M reporting period
RUB billion
1.7 1.8 2.4 3.3 3.6 3.8 4.4

Total fee and commission income for the 12M reporting period (management accounts)
RUB billion
2.4 3.5 3.5 3.3 4.4 3.0 2.6

CTOI (management accounts)
% 2011 2012 2013 2014 2015 2016 2017
89.0 103.3 83.5 71.2 70.6 76.3 73.6

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NSD's business priorities and development prospects
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PERFORMANCE IN THE KEY BUSINESS LINES

Interest of NSD’s clients in foreign securities
Read more

Electronic matching
25,700 transactions made using the ‘Hold & Release’ function for modifying the status of instructions
Read more

Bank of Russia’s repo trades involving the use of CMS
The service has already been used by 4 market players
Read more
By the end of 2017, the value of securities in custody reached RUB 39.4 trillion, which is 8% more than in 2016 (RUB 36.4 trillion). The number of securities issues in custody at NSD increased by one third, from 11,900 in 2016 to 15,400 in 2017, while the number of foreign securities issues in custody surged 66%, from 5,100 in 2016 to 8,500.

The value of Federal Loan Bond (OFZ) balances in foreign nominee accounts reached RUB 2.2 trillion by the end of the reporting year, a 49% increase against 2016 (RUB 1.5 trillion).

Settlement Services

As compared to 2016, the number of clearing transactions settled by NSD on a DVP basis in 2017 increased by 71,000 (+66%). The volume of transactions surged RUB 2.8 trillion or 63% against 2016. In the reporting year, clearing participants submitted instructions in such currencies as USD, RUB, GBP, EUR, CNY, and CHF.

In 2017, NSD’s clients showed a greater interest in foreign securities. The number of foreign securities issues in custody at NSD increased from 5,100 to 8,500. The number of FOP transactions at ICSDs grew 10%, while the number of DVP transactions at ICSDs surged 74%. In late 2017, as part of the efforts to improve foreign securities services, NSD launched a new service entitled “Individual accounts with ICSDs” to allow for segregated holding of clients’ securities through separate accounts held by NSD with Euroclear Bank. The key advantages offered by the new service include the possibility to segregate assets in a separate account, availability of additional services that can be used at ICSDs (such as technical netting, transaction linking, and instruction prioritization) which contributes to a higher liquidity and makes it possible to fund the trade right before the settlement, rather than in advance.
In May 2017, NSD successfully completed the project for the implementation of instruction prioritization and linked transactions services at the company. The instruction prioritization service allows 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 allows clients to segregate assets by creating a pool of linked instructions for delivery and receipt of securities on a FOP or DVP basis.

The instruction prioritization and linked transactions services contribute to improved effectiveness of settlements and allow clients to reserve cash funds or securities for particular trades and to settle instructions using the managed back-to-back solution that involves netting of settlement liabilities as part of a global pool of instructions, thanks to which it is possible to settle instructions the separate settlement of which would have been impossible due to non-availability of assets required for settlement.

Since July 2017, the instruction prioritization and linked transactions services have been used by NSD's clients on a daily basis, with the number of transactions processed using the services seeing a steady growth. As at the end of 2017, the total number of instructions settled using the instruction prioritization or linked transactions services (pooled instructions) reached 2,873.

Electronic Matching

In 2017, clients were actively using the 'Hold & Release' function, modifying the status of their instructions from "preliminary status" (hold) to "for execution" (release), and made more than 25,700 transactions, or approximately 4% 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 at the end of 2017, approximately 22,900 instructions indicating short aliases of sub-accounts were submitted by clients, a 3.5 times increase year over year.

The 'Hold & Release' function and the standardization of matching processes have made it possible to increase 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 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.

UIT Units Issuance and Redemption System (UIT Platform)

The UIT Platform project is intended 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 in the collective investment market.

The UIT Platform has allowed brokers (nominee holders) to provide end investors with access to transactions with UIT units of all management companies signed up to the platform. In turn, management companies are able to issue UIT units using the open 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 has allowed brokers and management companies to consolidate their client bases and to offer new services to their clients.

In 2017, 14 companies signed up to the UIT Platform, including eight brokers (nominee holders) and six management companies.
Cooperation with Issuers

In 2017, NSD updated a number of internal regulations and improved certain processes intended for cooperation with issuers. In particular, amendments were made to the Guidelines on the Procedure for Interaction between NSD and Issuers to remove the requirement to execute a supplemental agreement for each bonds issue and to reduce the number of documents to be provided by an issuer as part of the securities offering process. In addition, in the reporting year, NSD arranged a number of seminars: “Changes in the Procedure for Interaction in the Course of Information Disclosure and Certain Corporate Action Events” and “Changes in the Procedure for Interaction in the Course of Information Disclosure and Early Bond Redemption/Buyback (BPUT CA Type), with the Functionality Demonstration”.

The year 2017 saw the offering of 513 issues of corporate bonds (including bonds of VTB Bank) valued at RUB 20.5 trillion. Excluding VTB Bank’s one-day bonds, 269 issues of corporate bonds valued at RUB 4.5 trillion were offered. Income from the placement of securities under IPO agreements in 2017 amounted to RUB 2.45 million (RUB 1.05 million in 2016), while income from the registration of commercial papers amounted to RUB 3.5 million (RUB 1.1 million in 2016).

Eurobond Issuance by the Ministry of Finance of Russia

NSD is the head depository that provides services with respect to bonds and Eurobonds issued by the Ministry of Finance of Russia. The Ministry of Finance has given an upbeat assessment of the past-year experience and appreciated the high level of NSD’s reliability and its technology and services. In 2017, four Eurobond issues (two principal issues under each of Regulation S and Rule 144a, and four additional issues) and Federal Loan Bonds (OFZ) for individuals were offered by the Ministry of Finance of Russia. The Ministry of Finance has given an upbeat assessment of the past-year experience and appreciated the high level of NSD’s reliability and its technology and services. In 2017, four Eurobond issues (two principal issues under each of Regulation S and Rule 144a, and four additional issues) and Federal Loan Bonds (OFZ) for individuals were offered by the Ministry of Finance of Russia.

Commercial Papers

NSD continued working on such an OTC instrument as commercial papers.

In 2017, 8 commercial paper issuance programs for the aggregate maximum amount of RUB 22.89 billion, and 20 commercial paper issues valued, in aggregate, at RUB 4.34 billion were registered (16 commercial paper issues valued, in total, at RUB 2.78 billion were offered and placed).

The reporting year saw the first redemption of commercial papers issued by Fairdip Investments RU LLC, valued at RUB 100 million. In addition, a registration number was assigned to the issue of commercial papers of TradeSkver LLC for qualified investors.

Seeing the success of the product and having measured the market demand for it, NSD has decided to test the new technology, distributed ledger, for settlement of commercial papers. In 2017, NSD supported the issuance of commercial papers by PJSC “Megafon”, which were purchased by AO Raiffeisenbank, Russia.

The successful case involved the full life cycle of the securities, based on blockchain technology, from their issuance through to the discharge by the issuer of its liabilities to the investor in full. The transaction implemented on NSD’s platform has aroused great interest in issuers and investors towards the new technology designed to keep records of the rights to securities.

Corporate Actions Processing

In 2017, NSD tested the new technology intended for the processing of corporate action events for Russian securities. In the reporting year, 4,067 meetings of securities holders were held using the e-voting technology; 312 corporate actions involving the buyback of securities valued at RUB 124 billion and 55 corporate actions involving the exercise of the preemptive right, as the result of which securities were purchased for approximately RUB 8 billion, were initiated.

In 2017, in total, 15,812 corporate action events were initiated for Russian securities, a 6% increase against 2016 (14,977). The number of corporate action events for foreign securities increased substantially, from 7,943 in 2016 to 14,650 in 2017, thanks to a higher number of securities issues in custody at NSD. The growth rate was record 84%.

In the reporting year, the amount of income and redemption proceeds paid on securities through NSD raised significantly. In particular, the amount paid on Russian securities surged to RUB 14.2 trillion from RUB 4.4 trillion in 2016, which was mainly due to redemptions of one-day bonds. For foreign securities, the amount paid increased by 45%, from the equivalent of RUB 0.6 trillion in 2016 to the equivalent of RUB 0.9 trillion in 2017.

The e-voting technology was successfully tested at the annual general meeting of Sberbank: 99 shareholders of Sberbank, for the first time, used the opportunity to remotely access the
documents prepared for the general meeting and to vote at the meeting, held on 26 May, via the Internet. In total, the e-voting and e-proxy voting solutions were used by 806 shareholders having, in aggregate, 33.3% of the votes given by the total number of voting shares held by the shareholders attending the annual general meeting.

Moscow Exchange started using the e-voting service based on the platform created by NSD. Moscow Exchange’s shareholders (both individuals and organizations) used, for the first time, the e-voting service at the extraordinary General Meeting in absentia held on 14 September 2017.

In total, 73% of the votes of the shareholders who participated in the general meeting were cast using the e-proxy voting and e-voting solutions.

In late 2017, NSD and VTB Registrar provided Alrosa, the leading diamond mining company in Russia, with the possibility to use their e-voting services at the company’s general meeting. The e-voting services offered by VTB Registrar and NSD were used by almost 30% of the meeting participants, and, if to take into account those who voted through nominee holders (e-proxy voting), as much as 92.5% of the voting ballots were received in electronic format.

Throughout 2017, NSD continued working on the launch of a new service to make it possible to open individual accounts for NSD’s clients with foreign depositories. NSD successfully completed the procedure for cancellation of Sberbank’s RDR Program by converting RDRs held in clients’ securities accounts with NSD into underlying securities of RUSAL. In 2017, Deloitte & Touche CIS, NSD’s auditor, completed an operational audit of corporate actions-related business processes.

In December 2017, agreements were reached with Moscow Exchange, VTB Bank, and Bank VTB 24 regarding the processing of transactions in the course of VTB Bank’s reorganization through its merger with Bank VTB 24.

In December 2017, NSD completed drafting the Standards of Communication with Counterparties in the Course of Corporate Action Events for Russian Securities, which are intended to clarify steps to be taken by NSD, registrars, and securities depositories in the course of corporate action events involving Russian securities.

### 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 relief under double taxation treaties. When paying out income on depositary 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 1.3% to 100% of the amount of tax, depending on the securities and the tax jurisdiction in which the securities were issued.
The development of NSD’s Information Center in 2017 was focused on three areas:

In early 2017, NSD’s working group comprising major issuers, custodians, registrars, information agencies, and the Bank of Russia devised the “One-Stop Shop” solution to disclose corporate information. The One-Stop Shop will allow issuers to disclose information to the disclosure system and the Corporate Information Center via the authorized information agencies’ common interface. The solution is intended to substantially simplify the disclosure process for issuers and to address the issue of discrepancy and time lags, which arises when corporate information is disclosed through different systems. The One-Stop Shop will start functioning in 2018.

In September 2017, NSD completed the large-scale project intended to roll out a new suite of information services, by launching the Corporate Information Center’s new technological platform: nsddata.ru. The new product suite offered by NSD is based on the flexible customizable service that makes it possible to upload information on securities, related companies, and corporate actions onto the client’s API NSD system. The new platform replaced SIR-NSD and SIR-NSD Light products. At the same time, it incorporates modernized services DISC NSD and NSD Valuation Center and offers the opportunity to use CSD’s additional information services. In 2018, the priorities for NSD will be to increase the amount of information covered by NSD’s products, to improve data quality assurance and data validation systems, and to develop RegTech services.

In autumn 2017, NSD rolled out a brand-new product of the Valuation Center, which was designed in close cooperation with the market and the Bank of Russia and powered by the Interfax Information Services Group. The product was highly praised by the professional community and officially accredited by the Bank of Russia in December 2017.

The efforts to improve information services have allowed the CSD to achieve record demand both for NSD’s proprietary services and for solutions offered in partnership with independent players in the information market. In 2017, the number of users of NSD’s information services reached the record high of 403. The NSD Valuation Center and the RU DATA product, offered in partnership with the Interfax Group, saw the highest user growth rate: 1.8 times and 2.5 times, respectively.
TRI-PARTY SERVICES

Expertise and Innovations in Tri-Party Services

NSD’s collateral management technology is designed to allow repo market players to outsource their post-trade functions, such as daily collateral adequacy monitoring, issuance of margin calls, collateral reporting, and corporate actions processing. Tri-party services also make it possible to reduce operational burden on OTC repo market players, thanks to the automation of trade reporting to the Trade Repository and settlement automation.

In 2017, there was a reshuffle in the market of liquidity providers using the Collateral Management System (CMS) services. On the one hand, the Bank of Russia switched from supplying to absorbing the liquidity. The discontinuance of liquidity auctions and the dear-money policy pursued by the Bank of Russia resulted in a sharp drop in the volume of Bank of Russia’s repo trades with collateral management: from RUB 9,869 billion in 2016 to RUB 688 billion in 2017. On the other hand, the Russian Federal Treasury continued its increasingly active involvement in financial market transactions. For the purposes of Federal Treasury’s repo trades, NSD made a number of improvements resulting in a wider range of securities that could be accepted as collateral. In particular, in 2017, it became possible to accept, as collateral, Federal Loan Bonds (OFZ) with forthcoming coupon payments and securities issued to the Deposit Insurance Agency for capital injection into banks. In addition, long-term repos were launched, which are beneficial to borrowers thanks to the option to replace collateral. The value of Federal Treasury’s repo trades with collateral management in 2017 reached RUB 41.9 trillion, up 12% from the previous year (RUB 37.4 trillion), while the number of trades reached 1,796.

In April 2017, NSD offered CMS Web-client, an integrated solution for OTC repo trades, incorporating state-of-the-art software for clients to new types of market players: brokers, dealers, corporate clients, and non-credit organizations. NSD’s OTC repo platform is designed for transactions involving both a securities basket, and a single securities issue. Clients may make trades in the OTC market and report them to NSD for servicing via CMS Web-client and the Bloomberg Terminal. Web-client is accessible not only by back offices and securities depositories, but also by middle and front offices. Access rights settings allow running processes agreed upon with the compliance departments of each participant. CMS Web-client makes it possible to manage an open repo position, replace collateral securities just in few clicks, monitor the state of trade collateral, manage exposure limits, and see securities balances. NSD’s tri-party services for OTC repo trades

THE VALUE OF FEDERAL TREASURY’S REPO TRADES WITH COLLATERAL MANAGEMENT IN 2017 REACHED
RUB 41.9 trillion
UP
RUB 4.5 trillion FROM 2016

Alina Akchurina, Managing Director for Collateral Management and Tri-Party Services
offer not only convenience of post-trade services, but also new opportunities, such as open-ended repos and floating interest rates. The flexible mechanism of securities allocation to a particular trade and their replacement during the effective term of the trade and automatic margining allow market players to effectively manage their portfolios and help them reduce their operational risks and avoid transaction errors. The collateral replacement mechanism and automated processing of corporate actions are important for trades with a maturity longer than overnight. As at the end of 2017, 33 clients have signed up to the service, and 29 clients were in the process of signing up. The trading volume amounted to RUB 65 billion.

In June 2017, NSD launched the service for Bank of Russia’s repo trades involving the use of CMS on Moscow Exchange. The service has already been used by four market players.

As the demand for Bank of Russia’s liquidity grows, the product combining the flexibility of a securities basket and stock-exchange technology will be highly demanded by credit organizations.

In late December 2017, NSD launched the new ‘Liquidity Management’ service intended to automate money transfers between clients’ trading bank accounts for clearing of trades by NSD or NCC and making it possible to regularly transfer cash liquidity to NCC’s clearing bank account by using the clearing participant’s settlement code. The new service allows clients to reduce their costs associated with the management of cash positions at NSD and NCC clearing houses.

As part of the efforts to harmonize services and to make an integrated value proposition to Moscow Exchange Group’s clients, NSD has decided to apply the Group-wide approach to the pricing of collateral management and repo trade clearing services. From the beginning of 2018, clients are able to benefit from their preferred pricing plan offered by Moscow Exchange for trades involving the use of CMS.

The Moscow Exchange Group intends to further develop NSD’s CMS for on-exchange and OTC repo and derivatives trades.
The launch, in late 2016, of mandatory reporting for all types of OTC repo and derivatives trades made other than under master agreements contributed to the improvement of Trade Repository’s performance figures in 2017: the number of trades reported exceeded 11,272 thousand, with the aggregate value of RUB 472 trillion (a 4.6 times and 1.17 times increase year over year, respectively).

Due to an expected increase in the load on market players and the Trade Repository, NSD had to improve operational reliability, ensure straight-through processing of data, and enable market players to improve data quality on their side.

Operational reliability was improved by report format optimization and thanks to the creation of a user manual containing the guidelines on how to fill in data fields in messages. Thanks to those measures, the number of clients’ reports cancelled decreased by 1.8 times: from 183,000 to 100,000. Straight-through processing of data was ensured by updating annotations to reports and extending the Trade Repository’s business hours, which are now from midnight to 11.59 pm.

To improve the quality of data on trades reported by market participants, NSD launched the format and logical check service designed to verify incoming messages and report critical deviations in certain trade parameters (such as an exchange rate, interest rate, etc.) and/or missed reporting deadlines to the client.

The structural analysis of messages received from those clients who had signed up for the format and logical check service has shown that the service helps minimize incorrect data reported to the Trade Repository and, thus, to the Bank of Russia.

The launch of mandatory reporting for all OTC repo and derivatives trades has resulted in a greater interest market players have in Trade Repository’s data. Throughout 2017, clients were requesting untyped information from the Trade Repository’s Contracts Register both with respect to their own trades, and for market analysis purposes, using aggregated and anonymized data regarding certain instrument types.

To inform clients of its capabilities, NSD started disclosing aggregated statistics based on the Contracts Register, broken down by instrument type, before the effective date of the relevant regulations. In addition, in mid-year 2017, NSD started issuing monthly reports containing detailed information on the structure of trade reports, including details of repo trades and currency swap trades for 6, 9 and 12 months.

### Number of trades reported to the Trade Repository

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of trades</th>
<th>Number of trade reports cancelled</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>453,960</td>
<td>11,271,680</td>
</tr>
<tr>
<td>2016</td>
<td>2,489,920</td>
<td>183,050</td>
</tr>
<tr>
<td>2017</td>
<td>11,271,680</td>
<td>100,665</td>
</tr>
</tbody>
</table>

Anastasia Kiseleva, Managing Director for Repository Services
PAYMENT SERVICES

Expertise and Innovations in Payment Services

In 2017, NSD continued the practice of maintaining high quality services and introducing new ones to the NSD Payment System. Bank account (payment) services are not only a separate business line, but they are also integrated into NSD’s depository and clearing operations, thus creating all-inclusive services for clients. In 2017, the following changes were made to the payment infrastructure, which helped improve bank account services provided to NSD’s clients:

- Improvements were made to the service designed to support cross-currency settlements between clients, a conditional cash transfer on a ‘payment versus payment’ (PVP-1) basis. With effect from Q4 2017, cash transfers were made available to non-credit organizations. Cash transfers on the PVP-1 basis involve simultaneous transfer of money in a certain currency by one party to the trade and matching transfer of money in another currency by the second party to the trade, which ensures settlement finality.
- NSD rolled out Web-service, a new communication channel for bank account services, which allows clients to more easily automate the process of communication with NSD.

The advantages offered by the new communication channel include:

- Direct and real-time connection of the client’s IT systems to the NSD Payment System;
- Prompt and convenient automated exchange of payment documents without involvement of client’s users;
- Direct communication between clients and NSD without third-party intermediaries;
- Messaging format — XML (ISO 20022); and
- Availability to all users of the Bank-Client Internet/Intranet system at no additional cost.

IN 2017, THE AMOUNT OF CASH TRANSFERS REACHED RUB 389.8 trillion

Svetlana Gryanchenko
Director of Operations Department
In 2017, the amount of cash transfers reached RUB 389.8 trillion, a 10% increase against 2016 (RUB 354.8 trillion). The number of transactions was 1.19 mln, as compared to 1.16 mln in 2016 (+2%).

The volume of conversion transactions in USD associated with corporate payments amounted to 12.9 million, which is ten times higher than in 2016 (USD 1.2 million), while the amount of conversion transactions in Euro totalled 1.09 million. Moreover, in 2017, there was a significant increase in the number of currencies into which clients were able to convert USD and Euro.

In terms of the volume of payment transactions, capitalization, and the number of clients in the financial markets, NSD is Russia’s largest settlement non-banking credit organization and systemically and nationally important payment system.

In 2017, the NSD Payment System was subjected to a regular assessment for observance of the Bank of Russia’s recommendations regarding the use of the standards set out in the Principles for Financial Market Infrastructures.

The assessment demonstrates the high level of observance of the Principles for Financial Market Infrastructures by the NSD Payment System:

- The NSD Payment System observes or broadly observes the Principles for Financial Market Infrastructures: 11 Principles (Principles 2, 7, 8, 9, 12, 13, 15, 18, 21, 22, and 23) are ‘fully’ observed; 3 Principles (Principles 1, 3, and 17) are ‘broadly’ observed; and 4 Principles (Principles 4, 5, 16, and 19) are not applicable to the NSD Payment System. Certain provisions of the Principles are not applicable to the NSD Payment System due to its architectural features or due to the statutory requirements. No Principles that NSD either ‘partly’ observes, or does not observe were identified.

In 2017, further efforts were made to improve the governing documentation of the NSD Payment System, including documentation governing such key Payment System areas as risk management. In particular, to support bank account (payment) services, NSD approved the new version of the Methodology for Real-Time Monitoring of Risks in the NSD Payment System.

**IT SERVICES**

**IN 2017,**

**NSD SET IT SERVICES APART INTO A SEPARATE STRATEGIC BUSINESS LINE**

**Expertise and Innovations in IT Services**

As the core of the financial market, NSD gives particular attention to developing a reliable IT platform, implementing partnership programs, and ensuring a high level of information security. In 2017, NSD set IT services apart into a separate strategic business line.

Alexander Nam, Managing Director for Technological Services
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. In 2017, the key priorities were to ensure a high level of security and reliability of SWIFT infrastructure and to offer additional services to Service Bureau’s clients.

As part of the efforts to improve security and reliability of SWIFT infrastructure, NSD took part in the global Customer Security Programme (CSP) intended to reinforce and safeguard the security of SWIFT users in response to cyber threats. As a SWIFT user and certified SWIFT Service Bureau, NSD completed a CSP self-attestation process and successfully passed SWIFT’s additional information security audit. In addition, NSD was actively involved in the CSP implementation by the Russian SWIFT community, as part of the ROSSWIFT’s Working Group on SWIFT Technical Aspects (RTCH). In accordance with the decision taken by the ROSSWIFT Committee, the responsibility for ensuring security of Russian SWIFT users was delegated to the RTCH Working Group headed by NSD.

In 2017, as part of the work to launch additional services for Service Bureau’s clients, NSD rolled out a new version of NSD’s SWIFT Service Bureau’s file sharing and printing software that makes it possible to use RSA keys and makes that product usable by non-Russian resident clients. The service will enable foreign organizations to use NSD as a trusted provider of Service Bureau services and to benefit from the reliable and convenient integrated solution.

In 2017, the client base and the traffic going through NSD continued growing. In particular, in the reporting period, 19 new users signed up for the Service Bureau’s service, as a result of which their total number reached 67. The average daily traffic grew by 48% against 2016, to 11,257 messages a day.

NSD's Electronic Data Interchange

In 2017, NSD devised and approved the concept of a ‘financial messages transit’ service based on NSD’s existing electronic data interchange (EDI) platform. The new project will allow NSD to increase the number of transit service users thanks to the support provided to data interchange between corporate clients and banks through the use of ISO 20022 messages.

NSD successfully completed the scheduled phase of the strategic initiative to switch from LUCH software to the new communication channels (NSDirect, File Gateway, Web-Service, and SWIFT). Since 1 August 2017, corporate actions have been supported with the use of those new channels.

In 2017, participants’ personal accounts were launched to enable NSD’s clients to submit certain document types to NSD via the EDI system. In addition, a call center was established in NSD’s business units.

The process was launched to inform clients about scheduled software upgrades: clients are informed well in advance through NSD’s web site. Clients were also provided with a web-based tool designed to help them prepare various documents. In addition, the EDI function was enhanced to allow receiving documents required to support NSD’s electronic data interchange.

NSD launched the process for automated notification of clients of the need to be subjected to annual verification and renewal of their LEI data (such notifications are sent to the addresses provided by clients for the purpose of receiving such information). In addition, NSD automated the process of receiving applications for LEI assignment/verification and the process of client notification of changes in the FATCA/CRS status.

Communication with Registrars

In 2017, NSD changed the procedure for communication with registrars in connection with the opening/maintaining of NSD’s nominee accounts with registrars. In particular, NSD started using XML messages to communicate with 26 out of 54 registrars of companies and UITs.
The new e-voting functionality was tested together with eight registrars.

NSD started supporting the new functionality designed to provide e-voting services at general meetings of securities holders.

Three agreements were negotiated and entered into for the arrangement of e-voting at the general meetings of Sberbank, Moscow Exchange, and Alrosa. The meetings were supported by NSD.

271 accounts were opened in registers of securities holders. As at the end of 2017, the total number of accounts reached 4,323.

**FinTech and Decentralized Technology**

In 2017, NSD used the Blockchain-Based Distributed Systems Lab’s know-how to arrange, for the first time in Russia, the offering of debt instruments using blockchain technology. Commercial papers (discount debt instruments) valued at RUB 500 million were issued by MegaFon and purchased by Raiffeisenbank, Russia.

The new system is designed for digitized assets only and makes the process of debt instrument offering, trading, and record keeping transparent and simple to the maximum extent. Each party to a deal may share documents online and monitor the deal progress. Thanks to encryption and verification, all transactions can be processed in electronic format, which makes it possible to save time, reduce costs for each of the parties to the deal, register/sign documents online, and avoid errors in the process of document signing.

In 2017, the International Working Group of CSDs established at the initiative of NSD and Strate (South Africa’s CSD) and comprising also representatives of SIX (CSD in Switzerland), Nasdaq (CSD in Baltic states and supplier of solutions for CSDs across the globe), DCV (Chile’s CSD), Caja de Valores (Argentina’s CSD), ADX (UAE’s securities depository), and SWIFT, published a report describing, in detail, the DLT-based processes of e-proxy voting at general meetings of shareholders and analyzing areas in which those processes are aligned with the messaging standard ISO 20022.

Confirming the importance of the CSD Working Group on DLT, the International Securities Services Association (ISSA) has endorsed the group and included it as part of the new work stream within the Association’s existing Working Group on DLT, giving this initiative greater industry visibility.

As part of ISSA, the CSD Working Group on DLT will initially focus on digital assets with a goal of establishing a business framework for how these assets could be used in the post-trade space. The framework will identify key definitions, classifications, services, and post-trade service provider roles. Findings from the use case on digital assets are expected to be published in Q2 2018.

In 2H 2017, NSD started designing a blockchain post-trade services platform for digital assets. The first prototype of the platform is expected to be presented in 2018.

The platform architecture is focused on **identification of digital wallet owners**, record keeping and safekeeping of digital assets resulting from ICOs, and settlements.

The prospects of the service launch will depend on how soon the required regulatory framework is in place.
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/G20 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;
- ensure that timely and accurate disclosure is made on all material matters regarding NSD, including its financial situation, performance, ownership, and governance; 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.

- 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.

- 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.
Compliance with the Recommendations in the Corporate Governance Code

As a non-public joint-stock company, NSD is not subject to the provisions of Bank of Russia’s Regulations No. 454-P dated 20 December 2014 “On Information Disclosure by Securities Issuers” which require that a joint-stock company’s annual report contain information on compliance with the principles and recommendations set out in the Corporate Governance Code recommended by the Bank of Russia for application by joint-stock companies.

Nevertheless, NSD seeks to follow the best standards of corporate governance, including the most important principles and recommendations set out in the Corporate Governance Code.

In particular, NSD’s corporate governance framework is based not only on the Russian statutory provisions, but also on the principles laid down in the Corporate Governance Code, which is an evidence of a rather mature level of corporate governance at the company. NSD thoroughly analyzes 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. For NSD, the Corporate Governance Code is a source of best practices to be taken into account in drafting company’s internal regulations and a benchmark helping shape the best corporate governance system.

Supervisory Board's Performance Report for 2017

In 2017, 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 15 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 NSD’s business priorities for 2017, as well as projects and objectives as part of the business priorities;
- implementation of NSD’s Revenues, Costs and Income Budget and NSD’s Capital Expenditures Budget for 2017, and the making of adjustments thereto;
- approval of NSD’s Revenues, Costs and Income Budget and NSD’s Capital Expenditures Budget for 2018;
- preliminary approval of NSD’s Annual Report for 2016;
- approval of the fees payable to NSD’s independent auditor;
- re-appointment of the Chairman of NSD’s Executive Board;
- making changes to NSD’s Fee Schedules;
- revision of employee compensation regulations to bring them in line with Bank of Russia’s Instruction No. 154-I dated 17 June 2014;
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;
- 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 2017;
- recommendations to the annual General Meeting of Shareholders in 2017; and
- election of new members of Supervisory Board Committees and Customer Committees.

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 issues:

- 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:
  - amended and restated Financial Recovery Plan;
  - amended and restated Clearing Rules;
  - amended and restated Rules of Internal Control of NSD Aimed at Combating Money Laundering and Terrorist Financing;
  - amended and restated Terms and Conditions of Depository Operations;
  - amended and restated List of Procedures for Granting an EDI Participant Access to the NSD EDI System, Organization of EDI, and NSD EDI Fee Schedule;
  - amended and restated Electronic Communication Rules;
  - amended and restated Information Disclosure Rules;
  - amended and restated Regulations on the Audit Committee of NSD’s Supervisory Board;
  - Regulations on NSD’s Internal Control System;
  - amended and restated NSD’s Employee Bonus Plan Regulations;
- review of NSD’s Customer Satisfaction Index Report;
- approval of NSD’s economic capital for 2017; and
- approval of NSD’s Key Performance Indicators (KPIs) for 2017.

In 2017, 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 approved at an in-person meeting of the Supervisory Board.
NSD's Corporate Governance Structure

General Meeting of Shareholders

Supervisory Board

Chairman of the Executive Board

Architectural Committee

Update Committee

Innovations Committee

Audit Committee

Nomination and Remuneration Committee

Budget Committee

Technological Policy and Development Committee

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

Customer Committee for Settlement & Depository Services and Tariffs

Customer Committee for Quality Control and Risk Management

Customer Committee for Registrar and Depository Relations

Executive Board

Risk Management Committee

Tender Committee

Product and Project Committee

Repository Services User Committee

Risk Management Committee for Payment System

Committee on the Development of Corporate Actions and Corporate Information Center

Internal Audit Commission

ANNUAL REPORT OF NSD FOR 2017

Welcome Address

NSD: a Global Post-Trade Industry Player

NSD’s business priorities and development prospects

01. NSD in 2017

02. Performance in the Key Business Lines

03. Corporate Governance

04. Risk Management

05. Business Continuity

06. IT Infrastructure

07. International Cooperation

08. Corporate Social Responsibility

09. Human Capital

10. General Information on NSD’s Activities

11. Appendices
EXECUTIVE BOARD MEMBERS

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

Maria Krasnova,
Deputy Chairman of the Executive Board

Eddie Astanin,
Chairman of the Executive Board

Irina Veremeyenko,
Chief Accountant, Director of Accounting and Reporting Department

Sergey Putyatinskiy,
IT Director
NSD’s Management Bodies

General Meeting of Shareholders

Mission
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 relating to NSD’s activities. The list of matters reserved to the General Meeting is set out in Federal Law No. 208-FZ dated 26 December 1995 “On Joint-Stock Companies” and NSD’s Articles of Association.

Supervisory Board

Mission
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

Mission
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

Mission
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

Internal Audit Commission

Mission
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

Mission
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

Mission
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

Mission
In-depth analysis of matters relating to the recruitment, assessment and remuneration of NSD’s senior managers, including Supervisory Board members; the Chairman of the Executive Board; Executive Board members; and members of the Internal Audit Commission, and preparation of materials to be considered at Supervisory Board meetings.
Supervisory Board Committees

Technological Policy and Development Committee

Mission
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

Mission
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

Mission
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

Mission
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)

Mission
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

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

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.

Product and Project Committee

Mission
NSD’s project management.

Repository Services User Committee

Mission
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

Mission
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

Mission
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

Mission
Making proposals to ensure uninterrupted operation of IT infrastructure, development of the IT strategy, and monitoring its implementation.

Update Committee

Mission
Quality analysis of controls in the course of updating software or IT infrastructure, and risk management in the course of making updates.

Innovations Committee

Mission
Development of innovative ideas to create new products and services and to improve the competitiveness of NSD's existing products and services, as well as development of NSD's innovative capacity.

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

<table>
<thead>
<tr>
<th></th>
<th>Name</th>
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<tr>
<td>1</td>
<td>Valerya Avxentyeva</td>
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<td>Eddie Astanin</td>
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<td>Alexander Afanasiev</td>
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<td>Paul Anne F. Bodart</td>
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<td>Mikhail Bratanov</td>
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<td>Tatiana Fomina</td>
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<td>Alexey Fedotov</td>
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<td>14</td>
<td>Tatiana Chepeleva</td>
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<tr>
<td>15</td>
<td>Ilya Yuzhanov</td>
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</tbody>
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2 Information on the Supervisory Board members elected on 31 May 2016 is available in NSD's Annual Report for 2016.
Eddie Astanin

Date of birth: 16 December 1961

Education:
• 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.

Previous positions:
• 2009–2010. Deputy Director General, Director General, National Depository Center.
• 1994–2004. MICEX CJSC.

Alexander Afanasiev

Date of birth: 12 January 1962

Education:
• 1987. Moscow Finance Institute, post-graduate course.

Employment: Chairman of the Executive Board, Public Joint-Stock Company “Moscow Exchange MICEX-RTS”.

Previous positions:
Deputy Chairman of the Executive Board, Bank WestLB Vostok, a subsidiary of the German banking group WestLB AG.

Paul Anne F. Bodart

Date of birth: 22 January 1953

Education:
• 1976. Université Catholique de Louvain, Belgium.
• 1987. INSEAD,Fontainebleau, France.

Employment:
• Independent director and member of the Audit Committee, Belfius Bank.
• Professor at the Solvay Business School of the Brussels University.

Previous positions:
• 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, Chairman of the Audit Committee, and member of the Risk Management Committee and Nomination Committee, Dexia SA.
Mikhail Bratanov

Date of birth: 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.

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

Oleg Vyugin

Date of birth: 29 July 1952

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

Employment:
Professor and Stock Markets and Investment Market Chair at the Federal State Autonomous Educational Budgetary Institution of Higher Professional Education “National Research University Higher School of Economics”.
Currently, also the Chairman of the Board of Directors of NAUFOR, a member of the Board of Directors of Rosneft Oil Company PJSC, and a member of the Supervisory Board of Moscow Exchange.

Previous positions:

Bella Zlatkis

Date of birth: 5 July 1948

Education:
• 1978. All-Union Correspondence Financial Institute, post-graduate course.

Employment:
Deputy Chairperson of the Executive Board, Sberbank of Russia.
Sergey Lykov
Date of birth: 12 December 1952
Education:
• 1975. Moscow Finance Institute.
• 1988. All-Union Distance Institute of Finance and Economics, post-graduate course, Ph.D. (Economics).
Employment:
Deputy Chairman of Management Board, Member of the Management Board, State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank).

Paul James Ostling
Independent director
Date of birth: 22 September 1948
Education:
• 1969. Fordham University.
• 1973. Fordham University School of Law.
• 1983. Harvard University, advanced management program.
Employment:
• Member of the Board of Directors, Uralkali.
• Board member, Phoenix Neftegaz Services, LLC.
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:

Igor Marich
Date of birth: 1 April 1974
Employment:
• Member of the Executive Board, Managing Director of Money and Derivatives Market, Public Joint-Stock Company "Moscow Exchange MICEX- RTS” (Moscow Exchange).
Andrey Popov

Date of birth: 21 January 1973

Education:
- 1995. Truman State University (Missouri, USA).

Employment:
Chief Information Officer (CIO), Member of the Management Board, AO Raiffeisen Bank, Russia.

Previous positions:
- 2011–2013. Deputy Head (IT) of Banking Transactions and IT Directorate, ZAO Raiffeisen Bank, Russia.

Nadezhda Ushakova

Date of birth: 6 February 1967

Education:
1989. State Finance Academy

Employment:
Senior Vice President, Head of Depository, VTB Bank.

Previous positions:
Head of Custody, Deutsche Bank LLC.

Tatiana Fomina

Date of birth: 26 December 1968

Education:

Employment:
Vice President, Head of Financial Market Operations Directorate in the Banking Operations Department, AO UniCreditBank.
Tatiana Chepeleva

**Date of birth:**
1 July 1976

**Education:**

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

**Previous positions:**
- Deputy Chief Operating Officer, Bank Otkritie.
- Head of Moscow Office, Otkritie SECURITIES LIMITED.

Dmitry Shcheglov

**Date of birth:**
1 September 1975

**Education:**
- 1998. Moscow State Technological University (“Stankin”).
- 2016. The Moscow School of Management SKOLKOVO.
- Program: Executive MBA.

**Employment:**
- Chief Operating Officer (COO), Member of the Executive Board, Public Joint-Stock Company “Moscow Exchange MICEX- RTS” (Moscow Exchange).

Ilya Yuzhanov

**Independent director**

**Date of birth:**
7 February 1960

**Education:**
- 2013. Institute of Directors, UK, IoD Chartered Director.

**Employment:**
- 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:**
- Chairman of the Supervisory Board, ALROSA.
- Member of the Board of Directors, Otkritie Financial Corporation.
- Chairman of the Board of Directors, NOMOS-BANK.
- Member of the Board of Directors, Uralkali.
- Member of the Board of Directors, Polymetal.

The members of the Supervisory Board do not own any shares in NSD.
Information on the Executive Board Members

Eddie Astanin,
Chairman of the Executive Board

Date of birth: 16 December 1961

Education:
• 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, NSD.

Previous positions:
• 2009–2010. Deputy Director General, Director General, National Depository Center.
• 1994–2004. MICEX CJSC.

Irina Veremeyenko,
Chief Accountant, Director of Accounting and Reporting Department

Date of birth: 24 May 1965


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

Maria Krasnova,
Deputy Chairman of the Executive Board

Date of birth: 13 February 1970


Employment:
Deputy Chairman of the Executive Board, Executive Board Member, NSD.

Previous positions:
Błyce President, Director for Corporate Matters, Risks, and Legal Support, NSD. President, Closed Joint-Stock Company “Depository Clearing Company”.

4 As of 31 December 2017.
Andrey Shlyappo,
Deputy Chairman of the Executive Board, Member of the Executive Board

Date of birth: 12 September 1968

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

Employment: Deputy Chairman of the Executive Board, Executive Board Member, NSD.

Previous positions: 2010–2014. Director of Depository Transactions Department, Vice President, Director of Operations, NSD.

Sergey Putyatinskiy,
IT Director

Date of birth: 15 July 1982

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

Employment: IT Director, Executive Board Member, NSD.

Previous positions: • 2012–2013. Vice President, IT Director, Bank Otkritie.
• 2009–2012. Business Development Director, Neoflex Consulting

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.

On 30 June 2011, the Shareholders Agreement with respect to NSD was executed, which 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. ROSBANK Public Joint-Stock Company
4. Centro Credit Joint-Stock Commercial Bank
5. VTB Bank (public joint-stock company)
6. Bank for Development and Foreign Economic Activities (Vnesheconombank)
7. ALOR INVEST Ltd
8. JSC “Bank Credit Suisse (Moscow)”
9. Joint stock company Raiffeisenbank
10. Stock Company Saint-Petersburg Currency Exchange
11. Joint Stock Company UniCredit Bank
12. KIT Finance (JSC)
13. Commercial Bank “J.P. Morgan Bank International” (Limited Liability Company)
14. Limited Liability Company “ATON”
15. Broker Credit Service Limited
16. “OOO Morgan Stanley Bank”

5 As of 31 December 2017.
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 30 May 2017, the annual General Meeting of Shareholders resolved to approve the following internal regulations of NSD:

- Regulations on the Supervisory Board; and
- Regulations on the Executive Board.

The General Meeting also approved NSD’s Annual Report for 2016 and appointed NSD’s external auditor. In addition, the General Meeting made decisions on profit distribution and dividend payment for 2016, 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 2017.

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 30 May 2017 passed the following resolutions in relation to dividend payment to NSD’s shareholders:

• Pay RUB 2,106,359,000 out of NSD’s net profit for 2016 as dividends to the shareholders.

• Determine the dividend amount of RUB 1,784.03 per NSD’s registered ordinary share before dividend income tax under article 284 (sub-paragraph 1, paragraph 3) of the Russian Tax Code.

• Determine that the record date for dividend payment purposes shall be 10 June 2017.

• 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 2017 to the Supervisory Board members amounted to RUB 49,603,000, including RUB 28,853,000 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 member depends on whether the KPIs are achieved.

Information regarding the compensation plan and the remuneration paid to the Executive Board members, which is to be disclosed in accordance with Bank of Russia’s Instruction No. 154-I dated 17 June 2014, is available in the company’s annual financial statements for 2017 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 efficient work of NSD’s Supervisory Board in organising the internal control and external audit system, as well as risk management at NSD.

In 2017, NSD continued to face the challenges of global geopolitical and financial uncertainty; evolving financial policy and regulation; and heightening concerns around risk management and cyber security — from the perspectives of both institutions and our clients and stakeholders. Throughout the reporting year, the Audit Committee and NSD’s business units were actively involved in addressing these challenges. Despite the volatility caused by the underlying challenges, NSD continued to display stability in updating its processes and systems to proactively address them.

Highlights of the year
In 2017, the Audit Committee held 14 meetings and dealt with 43 issues. In 2017, important among the tasks addressed were updating the corporate governance and quality assurance around the Audit Committee’s mandate and its relationship with the NSD’s functions (focused upon its financial statement assurance, risk management, internal controls, internal audit, fraud prevention and compliance with applicable laws and regulations), as well as developing our Internal Audit Quality Assurance Program.

At its meetings the Audit Committee regularly received reports and monitored the execution of the plans of the Internal Audit, Internal Controls, Risk Management Departments, and its external auditors. In particular, the Committee required more in-person ongoing reporting from the external auditors.

In 2018, the Audit Committee will spend more time to take proactive measures around containing cyber security and IT-related risks. It will also seek to engage more of the expertise on the Supervisory Board to better address NSD’s risk management and containment strategies.

Members
(as of 31 December 2017)

1. Paul James Ostling
   Chairman of the Committee

2. Paul Anne F. Bodart
   Independent director and member of the Audit Committee, Belfius Bank S.A.

3. Nadezhda Ushakova
   Senior Vice President, Head of the Depository, VTB Bank

4. Tatiana Fomina
   Vice President, Head of Financial Market Operations Directorate in the Banking Operations Department, AO UniCreditBank

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 2017, the Committee held 10 meetings.

The priorities for the Committee were matters relating to the budgeting of NSD’s operations and the company’s pricing policy. The Committee’s key task in 2017 was to ensure operational cost-effectiveness of NSD’s business while providing earmarked financing for priority projects. For these purposes, the Committee reviewed NSD’s management accounts on a regular basis and made recommendations to the Supervisory Board in respect to fee schedules.
Nomination and Remuneration Committee

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

**Highlights of the year**
In 2017, the Committee held five 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 2017;
- NSD’s Key Performance Indicators (KPI) for 2017 and assessment of the achievement of NSD’s KPIs for 2016;
- remuneration of the Chairman of the Executive Board and Executive Board members for 2016, and remuneration of the heads of the internal control and risk management divisions;
- updating NSD’s employee compensation plan in accordance with Bank of Russia’s Instruction 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 2017.
Technological Policy and Development Committee

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

Highlights of the year
In 2017, the Committee held three meetings, at which the Committee members addressed various matters relating to the performance assessment of NSD’s IT business units, including those relating to the assessment of costs required to develop IT solutions for the company. In addition, the Committee discussed drafts of internal regulations and reports concerning IT development.

In 2018, the Committee will continue assisting the Supervisory Board in taking effective decisions required to ensure NSD’s technological development both in the long run and in the medium term, by taking account of the needs of NSD’s clients, improving reliability and effectiveness of the company’s key business processes, and improving IT infrastructure.

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, Depository, VTB Bank (PJSC).

Highlights of the year
In 2017, the Committee held 10 meetings at which the Committee members approved amendments to the Fee Schedule for NSD’s Depository Services; the amended and restated Electronic Communication Rules, the amended and restated Terms and Conditions of NSD’s Depository Operations, and the amended and restated Guidelines on Handling Clients’ Complaints and Enquiries.
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.

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

**Highlights of the year**
In 2017, the Committee held five meetings at which the Committee members discussed ways to improve the quality of NSD’s Web-client solution, technological changes aimed at improving depository services offered to clients, and improvements to NSD’s client policy.

Customer Committee for Settlement and Depository Services and Tariffs

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

- liaising with financial market participants for the purpose of studying customers’ needs and analysing new market trends; and
- 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**
Eugenia Klimova, Head of Custody Services Department, AO Raiffeisenbank.

**Highlights of the year**
In 2017, the Committee held seven meetings, at which the Committee members addressed various matters relating to the development of NSD’s priority projects: payment and related services, corporate actions, and pricing policy.

Customer Committee for Registrar and Depository Relations

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

- liaising with financial market participants for the purpose of studying customers’ needs and analysing new market trends; and
- making recommendations to NSD’s Supervisory Board and executive bodies on the following matters:
  - development of depository and settlement 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**
Maksim Murashov, General Director, JSC “DRAGA”

**Highlights of the year**
In 2017, the Committee held two meetings, at which the Committee members addressed, among others, the following matters: implementation of the functionality to disclose information on corporate actions, and improvement of cooperation with registrars.

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6 Prior to 8 February 2017, the Committee was chaired by Lyudmila Mironova, General Director, Registrar R.O.S.T, JSC.
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.

**Highlights of the year**
In 2017, the Committee held 11 meetings, at which the Committee members addressed 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 focused on the following matters:

- steps aimed at enhancing the level of NSD’s cyber security;
- progress in the implementation of the business continuity and disaster recovery plans and plans for building fault-tolerant infrastructure;
- acceptance of risks in NSD’s ongoing operations;
- outcome of investigations into the causes and circumstances of material incidents in NSD’s operations, and steps taken to prevent their re-occurrence.

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**
Anna Volodina, Director of Risk Management Department, NSD.

**Highlights of the year**
In 2017, the Committee held three meetings. Apart from organizational matters, the Committee members addressed 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 aspects 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. In addition, the Committee approved the amended and restated Methodology of Real-Time Monitoring of Risks in the NSD Payment System.

Tender Committee

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

**Chairperson**
Georgy Uryutov, Director of General Economic Department, NSD.

**Highlights of the year**
In 2017, the Committee held 38 meetings. Most of the matters addressed by the Committee were relating to the outsourcing of the design and maintenance of various IT systems and software solutions. In particular, counterparties were selected to train employees, to renovate NSD’s office building (12 Spartakovskaya Street), and to acquire licences, computer hardware, and other equipment.

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 Veremeyenko, Chief Accountant, Director of Accounting and Reporting Department, Executive Board member.

**Highlights of the year**
In 2017, the Committee held 22 meetings, at which the Committee members, among other things, discussed the following projects: development of channels for remote communication with clients; collateral management system integration with the Trade Repository; netting of on-exchange and OTC trades; instruction prioritization; and centralized UIT units record keeping system.

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7 Prior to 10 October 2017, the Committee was chaired by Oleg Lisovoy.
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 Presnyaokova, Executive Director, COO, Commercial Bank "J.P. Morgan Bank International" (Limited Liability Company).

Highlights of the year
In 2017, the Committee held three meetings at which the Committee members discussed improvements to the Trade Repository’s software, service development plans, and the fee schedule for repository services.

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, Commercial Bank "J.P. Morgan Bank International" (Limited Liability Company).

Highlights of the year
In 2017, the Committee held three meetings at which the Committee members addressed various matters relating to the improvement of the Standards of Communication with Counterparties in the Course of Corporate Action Events for Russian Securities.

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 2017, the Committee held 19 meetings to discuss matters relating to the installation of software releases, as well as to the assessment of non-project-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, 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 2017, the Committee held ten meetings. Among the matters addressed by the Committee were the following: confidentiality protection of NSD’s information; applying state-of-the-art technology to a concept of IT services and resources use at NSD secure user access to the Internet, automation of the testing-related reporting process 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.

Innovations Committee

Mission
The Innovations Committee’s key responsibilities are as follows:

• development of innovative ideas to create new products and services and to improve the competitiveness of NSD’s existing products and services; and

• development of NSD’s innovative capacity.

Chairperson
Artem Duvanov, Director for Innovations, NSD.

Highlights of the year
In 2017, the Committee held two meetings. The matters addressed by the Committee included a plan for NSD’s innovation development; protection of NSD’s intellectual property rights to innovations; and cooperation with counterparties in the field of innovation development.
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, the Bank of Russia, 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 key risk factors associated with NSD's operations are described below:

<table>
<thead>
<tr>
<th>RISK</th>
<th>RISK FACTORS / SOURCES</th>
</tr>
</thead>
<tbody>
<tr>
<td>CREDIT RISK</td>
<td>• Counterparties’ default on their obligations in transactions that bear credit risk</td>
</tr>
<tr>
<td>MARKET RISK</td>
<td>• Changes in exchange rates</td>
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<tr>
<td></td>
<td>• Changes in the market value of securities in NSD's portfolio</td>
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<tr>
<td></td>
<td>• Changes in interest rates and yields</td>
</tr>
<tr>
<td>LIQUIDITY RISK</td>
<td>• Potential maturity mismatch between financial assets and financial liabilities</td>
</tr>
<tr>
<td></td>
<td>• Need for NSD to meet its financial liabilities immediately and at the same time</td>
</tr>
<tr>
<td>OPERATIONAL RISK</td>
<td>• Ineffectiveness of internal business processes</td>
</tr>
<tr>
<td></td>
<td>• Human errors</td>
</tr>
<tr>
<td></td>
<td>• Malfunctioning of IT systems</td>
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<tr>
<td></td>
<td>• Fraud</td>
</tr>
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<td></td>
<td>• External events</td>
</tr>
</tbody>
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Key Milestones in Risk Management in 2017

The key activities completed in 2017 include the following:

- Steps taken to ensure operational reliability and failure-free operation of NSD’s processes.
- Implementation of the program designed to assist the company’s business units in developing risk expertise in accordance with the ERM standards.
- Determination of the level of capital required to cover risks, and implementation of daily monitoring of limits provided for by the Internal Capital Adequacy Assessment Processes.
- Revision of the processes designed to collect and analyze information on risks and risk events, and improvement of automated risk management processes.
- Switching to quantitative methods of project risk assessment.

RISK FACTORS / SOURCES

<table>
<thead>
<tr>
<th>RISK</th>
<th>RISK FACTORS / SOURCES</th>
</tr>
</thead>
<tbody>
<tr>
<td>LEGAL RISK</td>
<td>- Failure to perform contracts and agreements</td>
</tr>
<tr>
<td></td>
<td>- Flaws in the legal system</td>
</tr>
<tr>
<td></td>
<td>- Legal errors arising in the course of operations</td>
</tr>
<tr>
<td>REGULATORY RISK</td>
<td>- Failure to comply with the requirements of laws, internal regulations, and industry standards applicable to NSD’s operations</td>
</tr>
<tr>
<td>REPUTATIONAL RISK</td>
<td>- Negative perception of the company’s financial solvency, quality of services, and operational reliability by clients and other stakeholders</td>
</tr>
<tr>
<td>STRATEGIC RISK</td>
<td>- Mistakes in decision-making regarding the company’s development strategy</td>
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<td></td>
<td>- Shortcomings in strategy implementation</td>
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<tr>
<td>BUSINESS RISK</td>
<td>- Unforeseen costs arising in the course of providing services</td>
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<td>- Flaws in management decisions taken in connection with the design and promotion of services</td>
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<td>- External environment factors affecting company’s income and expenses</td>
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<tr>
<td>SYSTEMIC RISK</td>
<td>- Failure by one or more than one settlement participant to meet his liabilities, which could adversely affect the capability of most or all settlement system participants to meet their respective liabilities</td>
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</table>
In 2017, NSD continued its efforts to improve its risk management tools and practices. The Risk Management System Development Strategy for the Period until 2020 defines the following three key areas of focus:

![Diagram showing three key areas of focus: Improvement of Risk Management at the Infrastructure level, Measures and Services Reducing Risks Faced by Financial Market Infrastructure Participants, and Enterprise Risk Management (ERM) Best Practices.]

### Plans for 2018–2019

Risk management, along with other support functions, is intended to create an environment that would enable NSD to pursue its strategic goals and objectives. Accordingly, the following priority areas of focus have been identified to improve risk management practices:

- Improvement of risk analysis skills and competencies possessed by the members of staff involved in the first line of defence, and improvement of analysis quality and risk response measures.
- Raising awareness of risk management practices, and improvement of risk culture.
- Risk assessment of NSD’s strategic projects and initiatives.
- Building a financial model of projects with due regard to risks assessed using quantitative methods.
- Using approaches to asset quality assessment under IFRS 9.
- Further improvement of Internal Capital Adequacy Assessment Processes, including disclosure of information regarding risk and capital management to multiple stakeholders.
NSD pays close attention to ensuring business continuity and improving operational reliability. NSD takes steps, on a continuous basis, to improve its business continuity management system, and studies and implements best Russian and global practices in the field of operational reliability.

In 2017, a lot of tests were conducted, which covered various areas of NSD's business, including tests involving clients, the regulator, municipal service agencies, and service providers.
### Activities

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<tr>
<th>Activities</th>
<th>Additional information</th>
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<tr>
<td>A training the purpose of which was to test NSD’s operations (critical business processes) in an emergency.</td>
<td>Under the supervision of Bank of Russia’s representatives, the performance of NSD’s IT systems at the backup site was tested, including the running of critical processes at the backup site until the close of business (including cut-off processes). The training involved testing of the IT system designed to communicate with the Bank of Russia and field testing of the process of information sharing with the Bank of Russia’s payment system from the backup site.</td>
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<tr>
<td>Testing using multi-functional work stations available to NSD’s clients at NSD’s offices.</td>
<td>A client of NSD successfully tested the possibility of running corporate actions-related processes using a multi-functional work station available at NSD’s offices. The successful testing took place in the field, in respect to a real corporate action event.</td>
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<tr>
<td>Testing of the uninterrupted power supply system, automatic switching over to standby UPS, operation of diesel generators and uninterruptible power sources.</td>
<td>The testing involved power outage simulation.</td>
</tr>
<tr>
<td>Training the purpose of which was to test communications between NSD’s Emergency Management Committee and the regional office of the Ministry of Emergency Situations and Moscow Exchange.</td>
<td>The training involved a fire evacuation drill, fire alarm system testing, SMS alert system testing, and audible alert system testing.</td>
</tr>
</tbody>
</table>
In addition to existing security checks in respect to NSD's services, NSD started analyzing a source code in software products under development to identify information-security vulnerabilities before the product is rolled out, which contributes to higher reliability and security of NSD's services used by clients.
Development of Fault-Tolerant IT-infrastructure

In 2017, NSD launched a new common centralized Technical Monitoring System (TMS) based on a solution designed by Micro Focus (earlier, Hewlett Packard Enterprise). Now, instead of multiple disjointed monitoring systems, each of which had its own narrow focus, NSD has a global system designed to collect all information regarding the performance of NSD’s IT infrastructure in the context of various technical and business systems. As at the end of 2017, for those systems covered by monitoring, 53% of incidents were identified thanks to monitoring; the number of high-impact incidents identified by business units or clients decreased by 30%; and the IT infrastructure-related incident resolution time reduced by 54%.

The TMS is a conceptually new step in the development of monitoring not only at NSD, but across the entire Moscow Exchange Group: the TMS is built in accordance with the innovative ‘umbrella’ principle, i.e., the global system brings together, under an ‘umbrella’, several monitoring systems, including those manufactured by different solution providers. One of the key components of the TMS is a module designed to externally monitor availability of NSD’s services, which is, to the most extent possible, independent of the company’s internal infrastructure thanks to, among other things, dedicated hardware and Internet access. This allows us to see the technical condition of NSD’s services through clients’ eyes, comprehend how an issue is seen from outside, and promptly diagnose and fix it.

Testing IT System Disaster Recovery Plans

NSD continued upgrading its IT systems: The average score given to the IT infrastructure for meeting the Technological Policy requirements increased by 7.4 points and reached 77.4 points for high-reliability IT systems. Technical solutions were designed and rolled out, which make it possible to recover IT systems both at the main and backup data centers in accordance with the pre-defined Recovery Point Objectives (RPO) and Recovery Time Objectives (RTO).

In 2017, the Disaster Recovery Plan was successfully tested in accordance with the approved time schedule. The tests were focused on the functioning, at the backup data center, of IT systems grouped by business lines. In 2017, NSD paid great attention to improving DDoS protection to ensure a high level of availability of NSD’s services to clients in the event of DDoS attacks.

In addition to existing security checks in respect to NSD’s services, NSD started analyzing a source code in software products under development to identify information-security vulnerabilities before the product is rolled out, which contributes to higher reliability and security of NSD’s services used by clients.

NSD implemented vulnerability and patch management processes for NSD’s external services.

NSD was externally audited for compliance with the SWIFT’s new security requirements (SIPv2). The audit confirmed the high level of information security of the SWIFT payment infrastructure at NSD.
The main goal of NSD’s international activities is to boost its international standing and to widen the scope of opportunities for its clients. 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, and to share experience and expertise.
Observance of International Standards

In 2017, NSD started analysing the EU Central Securities Depositories Regulation (CSDR). The purpose is to ensure that NSD is adapted to the CSDR requirements that govern the principles of CSDs' operations in the European Union and their cooperation with ICSDs. The initiative is designed to provide NSD’s clients with comprehensive and stable services in their dealings with ICSDs.

Integration into the Global Financial Infrastructure and 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, and to share experience and expertise.

There have been further developments in cooperation within the Association of Eurasian Central Securities Depositories (AECSD).

In September 2017, the International Conference of the AECSD, focused on corporate information matters, took place in Minsk, Belarus. NSD was an active participant of the Conference and made presentations regarding the latest changes in the financial market and the corporate actions reform.

JSC Bank of Georgia joined the Association with observer status approved by the General Meeting of AECSD members at the meeting that took place as part of the Conference in Minsk.

Central Depository of the Republic of Tajikistan opened a foreign nominee securities account with NSD. Under the Securities Account Agreement and Electronic Data Interchange Agreement, clients of Tajikistan's CSD gained access to all Russian and foreign securities held with NSD through accounts with Clearstream Banking S.A. and Euroclear Bank S.A./N.V., as well as with other CSDs with which NSD maintains correspondent relations.

In November 2017, the AECSD international dialogue-forum on the collective investment market took place in Moscow. The Forum was hosted by NSD and the INFINITUM Group. Such an event for collective investment market players in the AECSD member countries was held for the first time and was attended by many delegates representing both Russian and foreign collective investment market institutions, infrastructure service providers, and ICSDs (Euroclear Bank SA/NV and Clearstream Banking SA). In future, events of this type are proposed to be held on a regular basis.

Asia, and in particular China, remains important to NSD’s international cooperation.

In July 2017, Russia was visited by a delegation of the Republic of Korea, made up of representatives of the Korean Financial Investment Association (KOFIA) and Korea Securities Depository (KSD) with which NSD signed a Memorandum of Understanding in 2012. During the meeting between the Korean delegation and NSD’s representatives, the parties presented their respective markets and shared their news and future plans.

In October 2017, NSD hosted a numerous delegation from China, which included representatives of a number of major banks and financial companies playing the key role in the financial market of mainland China. During their visit, the joint forum entitled “One Belt, One Road” was hosted by Shanghai Clearing House and Moscow Exchange, the purpose of which was to raise awareness of the Chinese and Russian financial markets among Russian and Chinese financial institutions and investors. NSD was involved in organizing the Forum and took part in the panel session “Interplay between the Financial Market Infrastructures of China and Russia”.

NSD also actively participated in one of the key events hosted by SWIFT on an annual basis, SIBOS forum, which, this time, took place in Toronto. NSD’s representatives were among speakers at a number of sessions focused on IT, including those at which distributed ledger technology was discussed.

International recognition was given to the presentations made by NSD’s representatives at the annual international forum of CSDs, WFC 2017 (November 2017, Hong Kong).
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 2,238 ISINs and CFIs to Russian financial instruments in 2017, while as the SNA, NSD assigned 14 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/LOUs in other countries. In 2017, NSD assigned 134 LEIs, accepted two LEIs assigned by pre-LOUs/LOUs in other countries, and verified 446 LEIs.

In 2017, NSD signed the Master Agreement with the Global LEI Foundation (GLEIF) and successfully completed the entire GLEIF accreditation process to obtain permanent LOU status instead of temporary pre-LOU status.

As part of the accreditation process, NSD introduced the new format designed to report LEI reference data (CDF 2.1), and started disclosing LEI 'Level 2' data (parent reference data).

As the Numbering Agency, NSD started assigning FISNs (Financial Instrument Short Names) according to ISO 18774, which, in accordance with the new European regulations (MiFID II/ MiFIR), become, in 2018, a mandatory reporting element for all financial instruments traded in the European markets. More than 10,000 FISNs were assigned to all financial instruments to which NSD had earlier assigned ISINs. NSD also started assigning FISNs, along with ISINs and CFIs, to new financial instruments.

In 2017, NSD started assigning CFIs in accordance with the new version of ISO 10962 approved in 2015 (ISO 10962:2015), and assigned new CFIs to financial instruments with valid ISINs. In total more than 8,700 CFIs were assigned in accordance with ISO 10962:2015.

By acting as the Numbering Agency and pre-LOU, NSD contributes to the introduction of the global coding standards in the Russian and CIS markets, which improves their transparency, helps them integrate into the global market infrastructure, and simplifies and optimizes financial market transactions.

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); and
- Russian National SWIFT Association (ROSSWIFT).

International Consulting Committee

The International Consulting Committee (ICC) established at NSD as a body of external experts has been functioning for four years. 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 2017, the ICC members proposed an initiative to optimize the process of collecting information on persons taking part in corporate action events, which could help reduce the burden on the securities market infrastructure.
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.

**Summer Melody wheelchair dancing festival**

Held by the regional non-governmental organization of disabled people “Duet Wheelchair Athletic Dance Club” with support from NSD.

Read more

**Charitable fund “Deti Nashi”**

The main project objectives are to socialize the trainees, develop communication skills in orphaned children, and make them more independent.

Read more

**Charitable foundation “Pronikaya v Serdtse”**

NSD provided support to Dmitry Malikov’s charitable foundation by purchasing medicines, hi-tech hearing aids and paying for the treatment.

Read more
Assistance to Children

Traditionally, assistance to children is a key priority of NSD’s charity program.

In 2017, NSD provided support to Dmitry Malikov’s charitable foundation “Pronkaya v Serdtse” (Permeating into Heart) by purchasing medicines, hi-tech hearing aids and paying for the treatment of six children.

Thanks to NSD’s continued cooperation with the “Danilovtsy” volunteer movement, the volunteers were visiting children in healthcare facilities and arranging classes for them during eight months. Through its collaboration with charity funds that provide targeted assistance to seriously ill children, including “Strana Chudes” (Wonderland) and “Radost Detstva” (Joy of Childhood), 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.

NSD provided aid to the “Sheredar” rehabilitation center for children.

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. 2017 was the fourth year of the joint program’s implementation. 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.

Sports Heritage

Thanks to financial assistance from NSD, the regional non-governmental organization of disabled people “Duet Wheelchair Athletic Dance Club” held the Moscow open cup and the Summer Melody wheelchair dancing festival.

Corporate Volunteering

NSD continues to focus on the involvement of its employees in social projects. In 2017, the company’s office traditionally hosted a Donor’s Day and charity fairs. The events were held with the assistance of the Blood Supply Service and such charitable funds as “Podari Zhizn” (Gift of Life), “Volontery v Pomoshch Detyam Sirotam” (Volunteers to Aid Orphaned Children), and “Deti Nashi” (Our Children). NSD also arranged a campaign to raise funds for the medical treatment of a 6-year-old child with cancer.
At NSD, we place a special emphasis on the development of corporate human resources.

Such qualities as leadership, creative approach, capability to generate new ideas, professionalism, responsibility, as well as human relations and creative freedom are highly valued in the company. Employees are NSD’s key asset.

Recruitment of successful young professionals

High potential
In-house talents were identified and trained

22%

IRINA ANTONOVA, Head of HR
Employees are the Key Resource of the Company

At NSD, we place a special emphasis on the development of corporate human resources. Such qualities as leadership, creative approach, capability to generate new ideas, professionalism, responsibility, as well as human relations and creative freedom are highly valued in the company. Employees are NSD’s key asset.

The company’s HR policy is aimed at ensuring employee loyalty and a high management level of NSD’s employees and executives.

In 2017, NSD’s headcount was 467. Continuous development of the company ensures their involvement and a high level of employee loyalty. This allows NSD to maintain a low churn rate (7% at year-end 2017) for several years in a row.

Equal Opportunities

NSD is committed to a clear policy of equal opportunities through granting women and men equal rights to career development. In 2017, the ratio of male to female employees was 42% to 58%, while the ratio of male to female executives was 48% to 52%.

Optimal Incentive System

NSD’s incentive policy is based on the following concepts:

- modern approach: a system of grades that allows using an efficient and transparent incentive system and helps offer remuneration, social and other benefits adequate to position’s grade;
- relevance of the incentive system: NSD is committed to following the labour market trends by participating in annual salary reviews, and, if necessary, adjusting the employees’ pay level and revising their benefits packages to bring them in line with the market level; and
- transparency of the incentive system: NSD’s system for employee remuneration and non-monetary incentives is governed by the internal regulations that are posted on the corporate portal and read by all employees.

Recruitment of Successful Young Professionals

In 2017, NSD succeeded in the implementation of the corporate program for engaging students and young professionals. It allowed the company to recruit new full-time employees from among young people.

During 2017, 46 students and graduates of Moscow universities completed training programs at NSD, with more than 15.5% employed afterwards. They have reinforced NSD’s core team with fresh energy and enthusiasm.

In 2017, NSD and the Higher School of Economics (HSE) held the first joint conference “NSD Progress” on the Prospects for Russian Financial Market Infrastructure Development. A key role in the event was assigned to the HSE students who presented the results of the research carried out jointly with NSD’s business leaders. The conference was attended by the representatives of the Bank of Russia and HSE faculty members. Not only did NSD benefit from the event in practical terms thanks to addressing important issues, it also managed to create an image of an attractive employer capable of and willing to work with young professionals.

High Potential — Support of Talented Employees

In 2017, NSD gave priority to talent development. In-house talents were identified and trained. The share of talents amounted to 22% of the total NSD staff. 14% of those employees with a high leadership potential were engaged in a variety of training programs and projects aimed at the development of leadership excellence. 7% of the employees included in the corporate talent pool were promoted at year-end 2017.
Unique Self-Training Environment

In 2017, NSD introduced and implemented a unique program for internal cross-functional training. A total of 116 employees received training within the Moscow Exchange Group. This allowed them to get new knowledge, share experience, and find out more about related processes implemented in the company. Such an approach helps NSD maintain its efficiency and enhance the quality of services.

Work-Life Balance

In 2017, a number of HR projects for ensuring work-life balance were implemented at NSD. The main objective of such programs was to support the employees in their way to success both at work and in their personal life.

NSD encourages its employees’ drive for a healthy lifestyle. For instance, in 2017, the company continued implementing the successful “Yoga in the Office” program. In addition, NSD continued leasing premises with a volleyball court.

NSD holds annual Health Days: employees are given fruits on ‘Vitamin days’; at autumn, vitamins are distributed and flu vaccination is done for the prevention of cold-related diseases.

To improve the employees’ health and prevent diseases, NSD enables its staff members to receive supplementary healthcare services through the system of collective voluntary health insurance funded by the company.

Cultural Projects for Employees

In 2017, NSD launched a project named Corporate Lecture Hall. In-house lectures with a unique intellectual content were arranged helping employees expand their horizons.
GENERAL INFORMATION ON NSD’S ACTIVITIES

NSD’s Information Disclosure Rules approved by the Bank of Russia (Order No. 14-6-22/9132 dated 20 September 2017) set out the procedure for information disclosure, i.e., provision of the following information to an indefinite or unlimited number.

Material aspects of interaction with external auditors

Interest in the Share Capital
Stock Company Saint-Petersburg Currency Exchange (SPCEX)
2.005%

Phases of internal audit:
Phase 1: analysis of NSD’s information systems;
Phase 2: intermediate procedures: audit of the state of accounting and controls, account balances…

Read more
Information Disclosure

NSD’s Information Disclosure Rules approved by the Bank of Russia (Order No. 14-6-22/9132 dated 20 September 2017) 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;
- 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 and Facebook.

Audit

Internal Audit Commission

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

The members of the Internal Audit Commission are:

1. Olga Gordienko, Chief Accountant, Moscow Exchange.
2. Anna Ivenkova, until October 2017 — Head of International Reporting, Financial Department, Moscow Exchange; and

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

In 2017, the three-year contract with Ernst & Young Vneshaudit LLC, the external independent auditor of the Moscow Exchange Group companies, expired.

The Moscow Exchange Group run the scheduled tender process to select an auditor for the new three-year period (2017 to 2019).

The commission responsible for the tender process decided to select Deloitte & Touche CIS as auditor of the Moscow Exchange Group companies for the period of 2017 to 2019 and recommended that the management bodies of the Moscow Exchange Group companies discuss and approve that decision.

On 30 May 2017, NSD’s annual General Meeting of Shareholders resolved to approve the appointment of Deloitte & Touche CIS as NSD’s auditor to conduct audits under the Russian Accounting Standards (RAS) and the International Financial Reporting Standards (IFRS) for the period until NSD’s annual General Meeting of Shareholders to take place in 2018.

8 As of 31 December 2017.
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 reliefs were obtained lawfully.

An audit includes several phases:

- **Phase 1**: analysis of NSD’s information systems;
- **Phase 2**: intermediate procedures: audit of the state of accounting and controls, account balances, and tax filings for the first seven months of a financial year;
- **Phase 3**: final procedures: audit of the state of accounting and controls, account balances, RAS and IFRS financial statements and tax filings for 12 months of the financial year.

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.

Under the Audit Services Agreement, the auditor undertakes to strictly comply with the laws of the Russian Federation and other regulations, including Federal Law No. 307-FZ “On Audit Activities” dated 30 December 2008, international standards on auditing, as well as Russian federal standards on auditing. Furthermore, the auditor is required to:

- ensure that any documents received by the auditor in the course of an audit are kept safe and returned in due course, and that their contents or any other information are not disclosed without NSD’s consent, except as provided by Russian law;
- if so requested by NSD, supply NSD with the necessary information on the requirements of the Russian laws with respect to the conduct of audits (including tax audits), and references to the regulations on which the auditor’s comments and conclusions are based, and
- inspect the documents related to NSD’s financial and business activities and the availability of any assets recorded in such documents.

Where the auditor discovers any breach of the tax laws or any material misstatements in NSD’s financial statements or tax reports, the auditor will notify NSD’s executives that they may be held liable for such breaches and that it is necessary to make amendments to the financial statements or make adjustments to the tax returns and calculations.

Deloitte & Touche CIS is authorized under Russian laws to conduct independent audits of NSD’s accounting system, financial statements (accounts), 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 prepared under the RAS and IFRS, and, if any material shortcomings in the accounting or internal control system are identified, issue an information letter, describing the shortcomings, to Moscow Exchange’s executives.

Deloitte & Touche CIS does not have any significant common interests with NSD or the Moscow Exchange Group.
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 is 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 assess the effectiveness of the risk management system, 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 2017, 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 the CSD’s Controller, the Professional Securities Market Participant’s Controller, the Clearing House’s Controller, the AML/CFT Officer, and the Insider Trading Compliance Officer.

In 2017, 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.

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 works designed to identify and counter any possible threats.
In accordance with the requirements set out in the BR ISBS Package, the Information Security Division is actively involved in analyzing business processes, preparing terms of reference, rolling out 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 cybersecurity 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 analyzes 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 reasons 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/CFT software solution that allows NSD to continuously monitor, identify, prevent, and automatically report suspicious transactions in clients' accounts.

NSD's Interests in Other Entities

<table>
<thead>
<tr>
<th>Entity’s Full and Short Name</th>
<th>Registered Office</th>
<th>Interest in the Share Capital, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock Company Saint-Petersburg Currency Exchange (SPCEX)</td>
<td>12/23 Sadovaya Street, 191023 St. Petersburg, Russian Federation</td>
<td>2.005</td>
</tr>
<tr>
<td>Avenue Adèle 1, 1310 La Hulpe, Belgium</td>
<td>Avenue Adèle 1, 1310 La Hulpe, Belgium</td>
<td>0.0145</td>
</tr>
</tbody>
</table>
APPENDICES

BALANCE SHEET
(published form)
for the year 2017

<table>
<thead>
<tr>
<th>Line</th>
<th>Item description</th>
<th>Note</th>
<th>For the current reporting period, RUB'000</th>
<th>For the previous reporting period, RUB'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cash</td>
<td>3.1</td>
<td>2,156</td>
<td>2,690</td>
</tr>
<tr>
<td>2</td>
<td>Balances with the Central Bank of the Russian Federation</td>
<td>3.2</td>
<td>37,262,096</td>
<td>26,919,745</td>
</tr>
<tr>
<td>2.1</td>
<td>Minimum reserve deposits</td>
<td></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>3</td>
<td>Due from credit organizations</td>
<td>3.3.5</td>
<td>41,685,180</td>
<td>77,136,511</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>Line</th>
<th>Item description</th>
<th>Note</th>
<th>For the current reporting period, RUB'000</th>
<th>For the previous reporting period, RUB'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>4</td>
<td>Financial assets at fair value through profit or loss</td>
<td>3.4</td>
<td>16,723,407</td>
<td>11,120,159</td>
</tr>
<tr>
<td>5</td>
<td>Net loans receivable</td>
<td>3.5, 5</td>
<td>35,758,810</td>
<td>22,627,433</td>
</tr>
<tr>
<td>6</td>
<td>Net investments in securities and other financial assets available for sale</td>
<td>3.6, 5</td>
<td>9,233</td>
<td>9,233</td>
</tr>
<tr>
<td>6.1</td>
<td>Investments in subsidiaries and associates</td>
<td></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>7</td>
<td>Net investments in securities held to maturity</td>
<td></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>8</td>
<td>Current income tax assets</td>
<td></td>
<td>86,207</td>
<td>46,182</td>
</tr>
<tr>
<td>9</td>
<td>Deferred tax asset</td>
<td></td>
<td>66,802</td>
<td>67,535</td>
</tr>
<tr>
<td>10</td>
<td>Property and equipment, intangible assets and inventories</td>
<td>3.7</td>
<td>4,864,324</td>
<td>4,639,325</td>
</tr>
<tr>
<td>11</td>
<td>Non-current assets held for sale</td>
<td></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>12</td>
<td>Other assets</td>
<td>3.8, 5</td>
<td>561,584</td>
<td>459,771</td>
</tr>
<tr>
<td>13</td>
<td>Total assets</td>
<td></td>
<td>137,019,799</td>
<td>118,800,813</td>
</tr>
</tbody>
</table>

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### II. LIABILITIES

<table>
<thead>
<tr>
<th>Line</th>
<th>Item description</th>
<th>Note</th>
<th>For the current reporting period, RUB'000</th>
<th>For the previous reporting period, RUB'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>14</td>
<td>Loans, deposits and other advances from the Central Bank of the Russian Federation</td>
<td>3.9</td>
<td>157</td>
<td>179</td>
</tr>
<tr>
<td>15</td>
<td>Due to credit organizations</td>
<td>3.10, 5</td>
<td>105,612,683</td>
<td>100,018,911</td>
</tr>
<tr>
<td>16</td>
<td>Customer accounts (other than credit organizations)</td>
<td>3.11, 5</td>
<td>16,619,789</td>
<td>4,367,357</td>
</tr>
<tr>
<td>16.1</td>
<td>Deposits by individuals, including individual entrepreneurs</td>
<td></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>17</td>
<td>Financial liabilities at fair value through profit or loss</td>
<td></td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
### ANNUAL REPORT OF NSD FOR 2017

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<table>
<thead>
<tr>
<th>Line</th>
<th>Item description</th>
<th>Note</th>
<th>For the current reporting period, RUB’000</th>
<th>For the previous reporting period, RUB’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>18</td>
<td>Debt securities issued</td>
<td></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>19</td>
<td>Current income tax liabilities</td>
<td></td>
<td>41,060</td>
<td>37,233</td>
</tr>
<tr>
<td>20</td>
<td>Deferred tax liabilities</td>
<td></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>21</td>
<td>Other liabilities</td>
<td>3.12,5</td>
<td>3,545,918</td>
<td>3,759,999</td>
</tr>
<tr>
<td>22</td>
<td>Allowance for losses under contingent credit liabilities, other losses and transactions with offshore residents</td>
<td></td>
<td>28</td>
<td>131</td>
</tr>
<tr>
<td>23</td>
<td>Total liabilities</td>
<td></td>
<td>125,819,635</td>
<td>108,183,810</td>
</tr>
</tbody>
</table>

### III. EQUITY

<table>
<thead>
<tr>
<th>Line</th>
<th>Item description</th>
<th>Note</th>
<th>For the current reporting period, RUB’000</th>
<th>For the previous reporting period, RUB’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>24</td>
<td>Shareholders’ (participants’) equity</td>
<td>3.13</td>
<td>1,180,675</td>
<td>1,180,675</td>
</tr>
<tr>
<td>25</td>
<td>Treasury shares</td>
<td></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>26</td>
<td>Share premium</td>
<td></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>27</td>
<td>Reserve fund</td>
<td>3.14</td>
<td>177,101</td>
<td>177,101</td>
</tr>
<tr>
<td>28</td>
<td>Fair value revaluation of securities available for sale decreased by deferred tax liability (increased by deferred tax asset)</td>
<td></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>29</td>
<td>Revaluation of property, equipment and intangible assets decreased by deferred tax liability</td>
<td></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>30</td>
<td>Revaluation of liabilities (assets) on payment of long-term benefits</td>
<td></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>31</td>
<td>Revaluation of hedging instruments</td>
<td></td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
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<table>
<thead>
<tr>
<th>Line</th>
<th>Item description</th>
<th>Note</th>
<th>For the current reporting period, RUB'000</th>
<th>For the previous reporting period, RUB'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>32</td>
<td>Grant financing (property investments)</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>33</td>
<td>Retained earnings (accumulated deficit) of prior years</td>
<td>7,152,867</td>
<td>6,333,728</td>
<td></td>
</tr>
<tr>
<td>34</td>
<td>Retained earnings (accumulated deficit) for the reporting period</td>
<td>2,689,521</td>
<td>2,925,499</td>
<td></td>
</tr>
<tr>
<td>35</td>
<td>Total equity</td>
<td>11,200,164</td>
<td>10,617,003</td>
<td></td>
</tr>
</tbody>
</table>

IV. OFF-BALANCE SHEET COMMITMENTS

<table>
<thead>
<tr>
<th>Line</th>
<th>Item description</th>
<th>Note</th>
<th>For the current reporting period, RUB'000</th>
<th>For the previous reporting period, RUB'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>36</td>
<td>Irrevocable commitments</td>
<td>1,440</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>37</td>
<td>Guarantees issued</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>38</td>
<td>Non-credit contingent liabilities</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
## Statement of Financial Results
(published form) for the year 2017

<table>
<thead>
<tr>
<th>OKATO territory code</th>
<th>Code of the credit institution</th>
</tr>
</thead>
<tbody>
<tr>
<td>45286555</td>
<td>42949474</td>
</tr>
<tr>
<td></td>
<td>3294</td>
</tr>
</tbody>
</table>

Credit organization: National Settlement Depository NSD  
(full name and short name)

Credit organization's address (location): 12 Spartakovskaya St., Moscow 105066

OKUD code 0409807  
Quarterly (annual)

### Section 1. Profit and Loss

<table>
<thead>
<tr>
<th>Line</th>
<th>Item Description</th>
<th>Note</th>
<th>For the Current Reporting Period, RUB'000</th>
<th>For the Corresponding Period of the Previous Year, RUB'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Interest income, total, including:</td>
<td>3.15</td>
<td>1,374,597</td>
<td>2,435,360</td>
</tr>
<tr>
<td>1.1</td>
<td>due from credit organizations</td>
<td>3.15</td>
<td>344,029</td>
<td>1,108,867</td>
</tr>
<tr>
<td>1.2</td>
<td>on loans to customers (other than credit organizations)</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
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<table>
<thead>
<tr>
<th>Line</th>
<th>Item description</th>
<th>Note</th>
<th>For the current reporting period, RUB'000</th>
<th>For the corresponding period of the previous year, RUB'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.3</td>
<td>from finance lease services</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1.4</td>
<td>investments in securities</td>
<td>1,030,568</td>
<td>1,326,493</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Interest expense, total, including:</td>
<td>3.16</td>
<td>189,599</td>
<td>98,769</td>
</tr>
<tr>
<td>2.1</td>
<td>deposits by credit organizations</td>
<td>189,599</td>
<td>98,769</td>
<td></td>
</tr>
<tr>
<td>2.2</td>
<td>on deposits by customers (other than credit organizations)</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>2.3</td>
<td>debt securities issued</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Net interest income (negative interest margin)</td>
<td>1,184,998</td>
<td>2,336,591</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Change in allowance for losses on loans and loan equivalents, balances on correspondent accounts and accrued interest income, total, including:</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>4.1</td>
<td>Change in allowance for losses on accrued interest income</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Net interest income (negative interest margin) after allowance for losses</td>
<td>1,184,998</td>
<td>2,336,591</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Net gain on financial assets at fair value through profit or loss</td>
<td>3.17, 5</td>
<td>–114,320</td>
<td>474,144</td>
</tr>
<tr>
<td>7</td>
<td>Net income from operations with financial liabilities at fair value through profit or loss</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Net gain on securities available for sale</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Net gain on securities held to maturity</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Net gain on foreign exchange operations</td>
<td>3.18, 5</td>
<td>885,315</td>
<td>–1,627,408</td>
</tr>
<tr>
<td>11</td>
<td>Net gain on revaluation of foreign currency</td>
<td>3.19</td>
<td>–67,792</td>
<td>1,548,135</td>
</tr>
<tr>
<td>Line</td>
<td>Item description</td>
<td>Note</td>
<td>For the current reporting period, RUB'000</td>
<td>For the corresponding period of the previous year, RUB'000</td>
</tr>
<tr>
<td>------</td>
<td>-------------------------------------------------------</td>
<td>------</td>
<td>------------------------------------------</td>
<td>----------------------------------------------------------</td>
</tr>
<tr>
<td>12</td>
<td>Net gain from operations with precious metals</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>13</td>
<td>Income from investments in other entities</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>14</td>
<td>Fee and commission income</td>
<td>3.20, 5</td>
<td>4,659,948</td>
<td>4,011,040</td>
</tr>
<tr>
<td>15</td>
<td>Fee and commission expense</td>
<td>3.21, 5</td>
<td>478,751</td>
<td>497,989</td>
</tr>
<tr>
<td>16</td>
<td>Change in allowance for losses on securities available for sale</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>17</td>
<td>Change in allowance for losses on securities held to maturity</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>18</td>
<td>Change in allowance for other losses</td>
<td>3.22</td>
<td>4,595</td>
<td>-65,592</td>
</tr>
<tr>
<td>19</td>
<td>Other operating income</td>
<td>3.23, 5</td>
<td>74,338</td>
<td>39,313</td>
</tr>
<tr>
<td>20</td>
<td>Net income (expense)</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>21</td>
<td>Operating expenses</td>
<td>3.24, 5, 6</td>
<td>2,712,870</td>
<td>2,459,563</td>
</tr>
<tr>
<td>22</td>
<td>Profit (loss) before tax</td>
<td>3.25</td>
<td>3,435,461</td>
<td>3,758,671</td>
</tr>
<tr>
<td>23</td>
<td>Tax benefit (expense)</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>24</td>
<td>Profit (loss) from continuing operations</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>25</td>
<td>Profit (loss) from discontinued operations</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>26</td>
<td>Profit (loss) for the reporting period</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

1 In accordance with the procedure for preparing the Statement of financial results as prescribed by the Bank of Russia, positive value of the line item reflects tax expense.
### Section 2. Other comprehensive income

<table>
<thead>
<tr>
<th>Line</th>
<th>Item description</th>
<th>Note</th>
<th>For the current reporting period, RUB’000</th>
<th>For the corresponding period of the previous year, RUB’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Profit (loss) for the reporting period</td>
<td>3</td>
<td>2,689,521</td>
<td>2,925,499</td>
</tr>
<tr>
<td>2</td>
<td>Other comprehensive income (loss)</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>3</td>
<td>Items that are not reclassified to profit or loss, total, including;</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>3.1</td>
<td>change in property and equipment revaluation reserve</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>3.2</td>
<td>change in revaluation reserve for liabilities (assets) on defined post-employment benefit plans</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>4</td>
<td>Income tax related to items that cannot be reclassified to profit or loss</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>5</td>
<td>Other comprehensive income (loss) that cannot be reclassified to profit or loss, net of income tax</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>6</td>
<td>Items that can be reclassified to profit or loss, total, including;</td>
<td>0</td>
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<td>0</td>
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<tr>
<td>6.1</td>
<td>change in revaluation reserve for financial assets available for sale</td>
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<td>6.2</td>
<td>change in cash flow hedge reserve</td>
<td>0</td>
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<tr>
<td>7</td>
<td>Income tax related to items that can be reclassified to profit or loss</td>
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<td>0</td>
<td>0</td>
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<tr>
<td>8</td>
<td>Other comprehensive income (loss) that can be reclassified to profit or loss, net of income tax</td>
<td>0</td>
<td>0</td>
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</tr>
<tr>
<td>Line</td>
<td>Item description</td>
<td>Note</td>
<td>For the current reporting period, RUB'000</td>
<td>For the corresponding period of the previous year, RUB’000</td>
</tr>
<tr>
<td>------</td>
<td>-----------------------------------------------</td>
<td>------</td>
<td>-------------------------------------------</td>
<td>----------------------------------------------------------</td>
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<td></td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>9</td>
<td>Other comprehensive income (loss), net of income tax</td>
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<td>0</td>
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</tr>
<tr>
<td>10</td>
<td>Financial result for the reporting period</td>
<td>2,689,521</td>
<td>2,925,499</td>
<td></td>
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</table>

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