



**NATIONAL  
SETTLEMENT DEPOSITORY**

**MICEX-RTS GROUP**

# FINANCIAL STATEMENTS

for the year ended 31 December 2011

2011



**NATIONAL  
SETTLEMENT DEPOSITORY**  

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**MICEX-RTS GROUP**

# FINANCIAL STATEMENTS

for the year ended  
31 December 2011

## TABLE OF CONTENTS

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>4</b>
Statement of Comprehensive Income	6
Statement of Financial Position	7
Statement of Cash Flows	7
Statement of Changes in Equity	8
<b>1. Organization</b>	<b>9</b>
<b>2. Basis of presentation</b>	<b>9</b>
<b>3. Key assumptions and sources of estimation uncertainty</b>	<b>14</b>
<b>4. Adoption of new standards and interpretations</b>	<b>15</b>
<b>5. Changes in presentation</b>	<b>16</b>
<b>6. Business combinations</b>	<b>17</b>
<b>7. Fee and commission income</b>	<b>17</b>
<b>8. Interest income</b>	<b>17</b>
<b>9. Personnel expenses</b>	<b>17</b>
<b>10. Administrative and other operating expenses</b>	<b>18</b>
<b>11. Income tax</b>	<b>18</b>
<b>12. Cash and cash equivalents</b>	<b>19</b>
<b>13. Financial assets at fair value through profit or loss</b>	<b>19</b>
<b>14. Due from banks</b>	<b>20</b>
<b>15. Investments in associates</b>	<b>20</b>
<b>16. Property, equipment and intangible assets</b>	<b>21</b>
<b>18. Balances of market participants</b>	<b>22</b>
<b>19. Other liabilities</b>	<b>22</b>
<b>20. Share capital</b>	<b>22</b>
<b>21. Contingent financial liabilities</b>	<b>23</b>
<b>22. Transactions with related parties</b>	<b>24</b>
<b>23. Fair value of financial assets</b>	<b>24</b>
<b>24. Capital management</b>	<b>25</b>
<b>25. Risk management policies</b>	<b>25</b>
<b>26. Subsequent events</b>	<b>30</b>



## INDEPENDENT AUDITORS' REPORT

To the Shareholders of National Settlement Depository

We have audited the accompanying financial statements of National Settlement Depository, which comprise the statement of financial position as at 31 December 2011, statements of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of National Settlement Depository as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Ernst & Young Vnesheaudit*

11 May 2012





**NON-BANKING CREDIT ORGANIZATION CLOSED JOINT-STOCK COMPANY NATIONAL SETTLEMENT DEPOSITORY**
**Statement of Comprehensive Income for the year ended 31 December 2011 (in thousands of Russian Rubles)**

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
Fee and commission income	7	1,742,009	425,148
Net gain on financial assets at fair value through profit or loss		1,665,058	968,153
Interest income	8	1,048,155	741,605
Other income		28,147	533
<b>Operating income</b>		<b>4,483,369</b>	<b>2,135,439</b>
Personnel expenses	9	(852,176)	(410,969)
Administrative and other operating expenses	10	(615,251)	(330,876)
Commission expenses		(167,024)	(15,964)
<b>Operating profit</b>		<b>2,848,918</b>	<b>1,377,630</b>
Share in associate's profits	15	44,817	2,010
<b>Profit before tax</b>		<b>2,893,735</b>	<b>1,379,640</b>
Income tax expense	11	(484,739)	(295,154)
<b>Net profit</b>		<b>2,408,996</b>	<b>1,084,486</b>
<b>Total comprehensive income</b>		<b>2,408,996</b>	<b>1,084,486</b>

Chairman of Executive Board  
E. V. Astanin  
11 May 2012  
Moscow

Chief Accountant  
I. E. Veremeenko  
11 May 2012  
Moscow



## NON-BANKING CREDIT ORGANIZATION CLOSED JOINT-STOCK COMPANY NATIONAL SETTLEMENT DEPOSITORY

## Statement of Financial Position at 31 December 2011 (in thousands of Russian Rubles)

	Notes	31 December 2011	31 December 2010	31 December 2009
<b>ASSETS</b>				
Cash and cash equivalents	12	66,808,866	52,454,376	56,112,681
Financial assets at fair value through profit or loss	13	37,526,505	20,151,276	15,094,741
Due from banks	14	–	961,061	–
Investments in associates	15	514,237	126,905	–
Property and equipment	16	1,878,701	1,727,362	1,673,712
Intangible assets	16	140,048	139,313	61,367
Income tax prepayments		5,969	80,895	54,984
Deferred tax assets	11	143,181	3,233	3,334
Other assets	17	843,402	313,066	46,111
<b>Total assets</b>		<b>107,860,909</b>	<b>75,957,487</b>	<b>73,046,930</b>
<b>LIABILITIES AND EQUITY</b>				
Balances of market participants	18	98,728,294	64,516,541	68,779,649
Distributions payable to holders of securities		2,657,080	2,993,020	–
Other liabilities	19	273,376	254,765	41,331
<b>Total liabilities</b>		<b>101,658,750</b>	<b>67,764,326</b>	<b>68,820,980</b>
<b>EQUITY</b>				
Share capital	20	1,193,982	1,193,982	268,307
Share premium	20	1,957,050	1,957,050	–
Retained earnings		3,051,127	5,042,129	3,957,643
<b>Total equity</b>		<b>6,202,159</b>	<b>8,193,161</b>	<b>4,225,950</b>
<b>Total liabilities and equity</b>		<b>107,860,909</b>	<b>75,957,487</b>	<b>73,046,930</b>

## NON-BANKING CREDIT ORGANIZATION CLOSED JOINT-STOCK COMPANY NATIONAL SETTLEMENT DEPOSITORY

## Statement of Cash Flows for the Year Ended 31 December 2011 (in thousands of Russian Rubles)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
<b>CASH FROM/ (USED IN) OPERATING ACTIVITY</b>			
Profit before tax		2,893,735	1,379,640
Adjustments for:			
Fair value adjustment on financial assets at fair value through profit or loss		676,455	79,053
Unrealized (gain)/loss on foreign exchange operations		29,313	(1,440)
Depreciation of property and equipment and amortization of intangible assets	10, 16	105,086	18,742
Share in associate's profits		(44,817)	(2,010)
Net change in interest accruals		11,061	(10,904)
Net loss from disposal of property and equipment and intangible assets		1,344	265
Net change in other accruals		9,394	7,691
<b>Cash from operating activities before changes in operating assets and liabilities</b>		<b>3,681,571</b>	<b>1,471,037</b>
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Financial assets at fair value through profit or loss		(18,051,684)	(5,135,588)
Due from banks		950,001	1,990,103
Other assets		(583,298)	33,742
Increase/ (decrease) in operating liabilities:			
Balances of market participants		34,262,054	(4,396,732)
Distributions payable to holders of securities		(335,940)	2,993,020
Other liabilities		27,083	(329,179)
<b>Cash flows from/ (used in) operating activities before taxation</b>		<b>19,949,787</b>	<b>(3,373,597)</b>
Income tax paid		(549,761)	(341,481)
<b>Net cash flows from/ (used in) operating activities</b>		<b>19,400,026</b>	<b>(3,715,078)</b>



# NON-BANKING CREDIT ORGANIZATION CLOSED JOINT-STOCK COMPANY NATIONAL SETTLEMENT DEPOSITORY

## Statement of Cash Flows for the Year Ended 31 December 2011 (continued) (in thousands of Russian Rubles)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>			
Purchase of property and equipment		(209,721)	(18,942)
Purchase of intangible assets		(47,847)	(73,486)
Proceeds from disposal of property and equipment and intangible assets		936	—
Purchase of investments in associates		(342,515)	—
<b>Net cash flows from investing activities</b>		<b>(599,147)</b>	<b>(92,428)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends paid		(4,399,998)	—
Business combination		—	14,034
<b>Net cash flows (used in)/from financing activities</b>		<b>(4,399,998)</b>	<b>14,034</b>
Effect of changes in foreign exchange rates on cash and cash equivalents		(46,391)	135,167
<b>NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>14,354,490</b>	<b>(3,658,305)</b>
<b>Cash and cash equivalents, beginning of the year</b>	<b>12</b>	<b>52,454,376</b>	<b>56,112,681</b>
<b>Cash and cash equivalents, end of the year</b>	<b>12</b>	<b>66,808,866</b>	<b>52,454,376</b>

Interest received for the years ended 31 December 2010 and 2011, amounted to RUB 1,059,216 thousand and RUB 730,701 thousand, respectively.

# NON-BANKING CREDIT ORGANIZATION CLOSED JOINT-STOCK COMPANY NATIONAL SETTLEMENT DEPOSITORY

## Statement of Changes in Equity for the year ended 31 December 2011 (in thousands of Russian Rubles)

	Notes	Share capital	Share premium	Retained earnings	Total equity
<b>31 December 2009</b>		<b>268,307</b>	<b>—</b>	<b>3,957,643</b>	<b>4,225,950</b>
Total comprehensive income		—	—	1,084,486	1,084,486
Business combination	6	925,675	1,957,050	—	2,882,725
<b>31 December 2010</b>		<b>1,193,982</b>	<b>1,957,050</b>	<b>5,042,129</b>	<b>8,193,161</b>
Total comprehensive income		—	—	2,408,996	2,408,996
Dividends declared		—	—	(4,399,998)	(4,399,998)
<b>31 December 2011</b>		<b>1,193,982</b>	<b>1,957,050</b>	<b>3,051,127</b>	<b>6,202,159</b>

## 1. ORGANIZATION

At 3 November 2010 Non-Banking Credit Organization Closed Joint-Stock Company MOSCOW INTERBANK CURRENCY EXCHANGE SETTLEMENT HOUSE (hereinafter — "MICEX SH") was reorganized by merger with Closed Joint-Stock Company National Depository Center (hereinafter — "NDC"). Simultaneously, the name MICEX SH was changed for Non-Banking Credit Organization Closed Joint-Stock Company National Settlement Depository (hereinafter — "NSD"). At 29 June 2010, the annual General Meeting of MICEX SH shareholders decided to reorganize MICEX SH by merger with NDC.

As a result of the reorganization, NSD became a legal successor of all rights and liabilities of NDC and MICEX SH.

NSD holds the following licenses:

- license No. 3294 issued by the Central Bank of the Russian Federation at 3 November 2010,
- license No. 177–12042–000100 issued by the Federal Financial Markets Service (hereinafter — "FFMS") at 19 February 2009 for depository operations,
- license No. 177–08462–000010 issued by FFMS at 19 May 2005 for clearing operations.

NSD functions as a settlement center of the organized securities market (SC OSM) subject to agreement No. БР Д 28/802 concluded with the Bank of Russia on 20 December 2010.

NSD is registered at the address: 1/13 Sredniy Kislovsky per., bldg. 8, 125009, Moscow.

As at 31 December 2011, NSD has no affiliates or representative offices on the territory of the Russian Federation or abroad. As at 31 December 2010, NSD had 6 affiliates on the territory of the Russian Federation.

As at 31 December 2011 and 2010, the number of NSD employees was 416 and 402, respectively.

NSD is a subsidiary of MICEX-RTS holding 99.997% and 99.961% of its shares as at 31 December 2010 and 2011, respectively.

## 2. BASIS OF PRESENTATION

### Significant accounting policies

#### Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

#### Basis of presentation

These financial statements have been prepared on the assumption that the NSD is a going concern and will continue its business activity in the foreseeable future.

These financial statements are presented in thousands of Russian Rubles. These financial statements have been prepared on a historical cost basis, except for certain items that have been measured at fair value and under International Accounting Standard (hereinafter — "IAS") 29 *Financial Reporting in Hyperinflationary Economies*.

NSD maintains its accounting records in accordance with Russian Accounting Standards (hereinafter — "RAS"). These financial statements have been prepared from NSD's statutory-based accounting records and adjusted for the purpose of fair presentation in accordance with IFRS. The adjustments included reclassifications of individual assets to bring them in compliance with the economic substance of transactions and recognition of deferred taxes.

Significant accounting policies are provided below.

### Revenue recognition

#### Fee and commission income

Fee and commission income is recognized when services are rendered.

#### Interest income

Interest income from assets carried at amortized cost is recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the relevant period.

The effective interest rate is the rate used to discount estimated future payments or cash receipts to the net carrying amount of the financial asset.

Once a financial asset or a group of similar financial assets has been written down (partially written down) as a result of impairment, interest income is thereafter recognized by applying the interest rate used to discount future cash flows for the purpose of measuring the impairment loss.

Interest income from assets at fair value is recognized in net profit from financial assets at fair value through profit or loss.

### Financial assets

Financial assets and liabilities are carried in NSD's statement of financial position when NSD becomes a party to the contractual provisions of the instrument. NSD recognizes regular purchases and disposals of financial assets and liabilities using the settlement date accounting.

Financial assets and liabilities are initially recognized at fair value. Transaction costs directly attributable to the acquisition or issue of financial assets or financial liabilities (except for financial assets and liabilities recognized at fair value through profit or loss) respectively increase or decrease the carrying amounts of financial assets or liabilities on initial recognition. Transaction costs directly attributable to acquisition of financial assets or liabilities at fair value through profit or loss are attributed directly to profit or loss.

### Cash and cash equivalents

Cash and cash equivalents include cash in hand, unrestricted balances on correspondent and deposit accounts with banks with maturity up to one business day. Amounts relating to funds that are of restricted nature are not included in cash and cash equivalents.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL) and 'loans and receivables'. The classification depends on the nature and purpose of financial assets and is determined on initial recognition.

### Financial assets at fair value through profit or loss

A financial asset is classified as at FVTPL when it is held for trading.

A financial asset is classified as 'held for trading' if:

- It has been acquired principally to be sold in the near future;
- On initial recognition it is part of a portfolio of identified financial assets that NSD manages together and has a recent actual pattern of short-term profit-taking;
- It is a derivative that is not a designated and effective hedging instrument.

Fair value of financial assets at FVTPL is determined in the manner described in Note 23.

### Loans and receivables

Loans and receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

### Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows from the asset have been negatively affected.

For financial assets, objective evidence of impairment may include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments; or
- Default or delay in interest or principal payments, or
- It becoming probable that the debtor will enter bankruptcy or financial reorganization; or
- Disappearance of an active market for that financial asset as a result of financial difficulties.

For financial assets carried at amortized cost, the amount of impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

Carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account.

### Derecognition of financial assets

A financial asset (or, where applicable, a part of the financial asset or part of a group of similar financial assets) is derecognized where:

- Rights to receive cash flows from the asset have expired;
- NSD has transferred its rights to receive cash flows from the asset or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement;
- NSD either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

### Financial assets at fair value through profit or loss (continued)

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that NSD either (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to receive the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, NSD reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the balance sheet. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, NSD assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where NSD retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

### Financial liabilities

#### Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial liability is derecognized when it is discharged, cancelled or expires.

### Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

NSD does not have any financial liabilities at FVTPL.

### Other financial liabilities

Other financial liabilities, including balances of market participants, distributions payable to holders of securities and other liabilities are initially measured at fair value, net of transaction costs.

Distributions payable to holders of securities include dividend and coupon payments received by NSD from securities issuers as instructed by NSD's securities holders to whom the company also renders depositary services. Standard term to pay dividend or coupon income to securities holders is five days. Dividend and coupon income is recognized at contractual amounts.

Subsequently, all other financial liabilities are recognized at amortized cost. Interest expense is measured using the effective interest method.

### Derecognition of financial liabilities

NSD derecognizes financial liabilities when, and only when, NSD's liabilities are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

### Property and equipment

Property and equipment purchased after 1 January 2003 is recognized at initial cost less cumulative amortization and accumulated impairment losses (if any). Property and equipment purchased before 1 January 2003 is recognized at initial amount adjusted for inflation less cumulative amortization and accumulated impairment losses (if any).

### Useful lives of property and equipment

Depreciation is accrued to write down actual or estimated cost of property and equipment less residual value on a straight-line basis over their useful lives. Estimated useful lives, carrying amount and depreciation period are reviewed at the end of each reporting period with the effect of any changes in estimate being accounted for without revising comparative indicators at the following rates:

	31 December 2011	31 December 2010
Buildings and other real estate	2%	2%
Other property and equipment	20%	20%

Depreciation of assets under construction and those not placed in service commences from the date the assets become available for their intended use.

### Intangible assets

Intangible assets are carried at acquisition cost less any accumulated amortization and any accumulated impairment losses. Amortization is charged on a straight-line basis throughout the useful life of the intangible assets. Estimated useful lives and amortization period are reviewed at the end of each reporting period with the effect of any changes in estimate being accounted for without revising comparative indicators at the following rates:

	31 December 2011	31 December 2010
Intangible assets	10%–100%	10%–100%

### Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

### Impairment of tangible and intangible assets

At the end of each reporting period, NSD reviews its tangible and intangible assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, NSD estimates the recoverable amount of the cash-generating unit to which the asset belongs. Cost of NSD's corporate assets is also allocated to separate cash generating units or the smallest groups of cash generating units for which a reasonable and consistent method of allocation may be established.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

### Taxation

Income tax expense comprises current and deferred tax.

#### Current income tax

Current tax expense is calculated based on the statutory taxable income for the year. Taxable profit differs from profit as reported in the statement of comprehensive income by items of income or expense that are taxable or deductible in other years and further excludes items that are never taxable or deductible. Current income tax liabilities are measured using statutory tax rates introduced before the end of the reporting period.

#### Deferred income tax

Deferred income taxes are provided for all temporary differences arising between the carrying amounts of assets and liabilities recognized in financial accounting and respective data of tax accounting used to measure taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences provided that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Tax assets and liabilities are not recognized if temporary differences arise from goodwill or from the initial recognition of an asset or liability in a transaction (except for business combinations) and affect neither taxable nor accounting profit.

Deferred tax liabilities are recognized for all taxable temporary differences related to investments in associates, except to the extent that NSD is able to control the timing of the reversal of the temporary difference and it is highly probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer highly probable that taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured using tax rates and tax laws which are enacted or substantively enacted at the reporting date and which are expected to apply in the period when the asset is realized or the liability is settled, respectively.

#### Current and deferred income tax for the year

Current and deferred income taxes are carried through profit or loss except when they relate to the items directly recognized in other comprehensive income or equity. In this case, current and deferred taxes are recognized in other comprehensive income or directly in equity, respectively.

#### Operating taxes

In the Russian Federation where NSD performs its activity, there are other requirements to accrual and settlement of other taxes applicable to NSD's activity besides income taxes. Such taxes are recognized as part of administrative and other operating expense in the statement of comprehensive income.



### Contingencies

Contingent liabilities are not recognized in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the statement of financial position but disclosed when an inflow of economic benefits is probable.

### Depository activities

NSD provides depository services to its customers which include transactions with securities on their depository accounts. Assets accepted and liabilities incurred under the depository activities are not included in NSD's financial statements. NSD accepts the operational risk on these activities, but NSD's customers bear the credit and market risks associated with such operations. Revenue for provision of trustee services is recognized as services are provided.

### Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the Russian Ruble exchange rate as at the reporting date. Transactions in currencies other than functional currency are recognized at the rate of the exchange prevailing at the date of the transaction. Gains or losses from such transactions are included into gains arising from foreign currencies recognized in other income.

### Currency exchange rate

The exchange rates used by NSD in the preparation of the financial statements as at year-end are as follows:

	31 December 2011	31 December 2010	31 December 2009
RUB/1 USD	32.1961	30.4769	30.2442
RUB/1 EUR	41.6714	40.3331	43.3883
RUB/1 UAH	4.00549	3.82828	3.76172

### Business combinations

Business combinations between companies under common control are recognized in the financial statements at carrying amount. At the date of acquisition, identifiable assets acquired and liabilities assumed are recognized in the NSD's statement of financial position at their carrying amounts in the acquiree's statement of financial position immediately before the acquisition. Profit or losses of the company acquired in the reporting year are included into the NSD's statement of comprehensive income from the acquisition date.

### Investments in associates

Associates are entities which are neither subsidiaries nor jointly controlled companies but whose financial and operating activities are significantly influenced by NSD.

Financial statements of associates are included into these financial statements using equity method of accounting.

Investments into associates are carried in the balance at acquisition cost including goodwill arising on acquisition adjusted to changes in NSD's share in net assets of the associate after the acquisition less impairment (if any).

The excess of the cost of acquisition of identifiable assets and liabilities of associates the NSD's share in their net value at the acquisition date represents goodwill. Goodwill is included in the carrying amount of investment and is annually tested for impairment as part of the investment.

If NSD enters into transactions with NSD's associates, profit or losses resulting from transactions with associates are excluded to the extent of NSD's share in the equity of the associate. Losses may indicate impairment of the transferred assets resulting in creation of the respective provisions for impairment.

### Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and benefits of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### 3. KEY ASSUMPTIONS AND SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying NSD's accounting policies, management makes assumptions and estimates concerning carrying amounts of assets and liabilities that are not readily apparent from other sources. Estimates and underlying assumptions are based on historical experience and other factors that are considered to be reasonable in the circumstances. Actual outcomes may differ from these estimates.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the change affects only the respective period, and in future periods if the change affects both current and future periods.

#### Key sources of estimation uncertainty

Key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### Impairment of accounts receivable

NSD regularly reviews its receivables for impairment. NSD's receivables impairment provisions are established to recognize incurred impairment losses in its portfolio of receivables. NSD considers accounting estimates related to provision for impairment of receivables a key source of estimation uncertainty because (a) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired receivables are based on recent performance experience, and (b) any significant difference between NSD's estimated losses and actual losses would require NSD to record provisions which could have a material impact on its financial statements in future periods.

NSD's Management uses its judgment to estimate the amount of any impairment loss in cases where the debtor has financial difficulties and there are few available sources of historical data relating to similar debtors. Similarly, NSD estimates changes in future cash flows based on past performance, past counterparty behavior, observable data indicating an adverse change in the payment status, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of receivables. NSD's Management uses its judgment to adjust observable data for a group of receivables to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the financial statements have been determined on the basis of existing economic and political conditions. NSD is unable to estimate what changes may occur in respect of the Russian Federation or the resulting effect of any such change over the adequacy of allowance for impairment of financial assets in future periods.

As at 31 December 2011 and 2010, the total amount of accounts receivable was RUB 229,361 and RUB 258,629, respectively.





#### 4. ADOPTION OF NEW STANDARDS AND INTERPRETATIONS

NSD has adopted the following amended IFRS and new Interpretations during the year. The effects of these changes are as follows:

##### IAS 24 Related Party Disclosures (Amendment)

The revised IAS 24, issued in November 2009 and effective for annual periods beginning on or after 1 January 2011, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. Transactions with related parties are disclosed according to the revised IAS 24 in Note 22.

##### Improvements to IFRS

In May 2010 the IASB issued the third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2011. There are separate transitional provisions for each standard. Amendments included in May 2010 "Improvements to IFRS" had an impact on the accounting policies, financial position or performance of NSD, as described below

##### IFRS 7 Financial Instruments: Disclosures

Introduces the amendments to quantitative and credit risk disclosures. Additional requirements had minor effect as the required information was readily available.

##### Other amendments to IFRS 1, IFRS 3, IAS 1, IAS 27, IAS 32, IAS 34 and IFRIC Interpretations IFRIC 13, IFRIC 14 и IFRIC 19

Will have no impact on NSD's accounting policy, financial position and performance.

##### New and revised IFRS in issue but not yet effective

##### Amendment to IAS 32 Financial instruments: Presentation (Guidance on Offsetting Financial Assets and Liabilities and Amendments to IFRS 7 Financial Instruments: Disclosures — Disclosures on Offsetting Financial Assets and Liabilities)

In December 2011, the IASB issued amendments to its current guidance in IAS 32 on offsetting financial assets and liabilities and has introduced new disclosure requirements in IFRS 7. The amendments to IFRS 7 are to be retrospectively applied for annual periods beginning on or after 1 January 2013 and the amendments to IAS 32 are to be retrospectively applied for annual periods beginning on or after 1 January 2014. Earlier application is permitted. The amendments to IAS 32 now clarify that rights to set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default, bankruptcy or insolvency of all the counterparties to the contract. The amendments to IAS 32 also clarify that rights of set-off must not be contingent on a future event. The amendments to IAS 32 also clarify the offsetting criteria that the reporting entity is required to intend either to settle on a net basis, or to realize the

asset and settle the liability simultaneously. The amendments to IFRS 7 require the reporting entity to disclose information about rights of set-off and related arrangements for all recognized financial instruments that are set off in accordance with IAS 32. NSD now evaluates the impact of the adoption of new amendments and considers the initial application date.

##### IFRS 9 Financial Instruments (first phase)

In November 2009 and 2010, the IASB issued the first phase of IFRS 9 *Financial Instruments*. This Standard will eventually replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 becomes effective for annual reporting periods beginning on or after 1 January 2015. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial instruments. In particular, for subsequent measurement all financial assets are to be classified at amortized cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. For financial liabilities recognized through profit or loss using fair value option IFRS 9 requires the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability to be presented in other comprehensive income. NSD now evaluates the impact of the adoption of this standard and considers the initial application date.

##### IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard becomes effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of IFRS 13 may have an impact on the measurement of NSD's assets and liabilities accounted for at fair value. NSD now evaluates the impact of the adoption of IFRS 13 on its financial position and performance.

##### Amendments to IFRS 7 Financial Instruments: Disclosures

In October 2010, the IASB issued amendments to IFRS 7 which become effective for annual reporting periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the users of NSD's financial statements to understand the nature of relations between such assets and related liabilities. In addition, the amendment introduces disclosure requirements for continuing participation in derecognized assets to enable the users of the financial statements to understand the nature of the entity's continuing participation in derecognized assets and evaluate the related risks. The amendment only introduces changes to disclosure requirements and has no impact on NSD's financial position or performance.

#### Amendments to IAS 12 Income Taxes — Deferred Taxes: Recovery of Underlying Assets

In December 2010, the IASB issued amendments to IAS 12 which become effective for annual reporting periods beginning on or after 1 January 2012. The amendment clarifies the determination of deferred tax on investment property remeasured at fair value. The amendment introduces a rebuttable presumption that deferred tax relating to investment property measured at fair value in accordance with IAS 40 must be determined based on the assumption that its carrying amount will be recovered through sale. In addition, the amendment introduces a requirement according to which the deferred tax relating to non-depreciable assets measured using the revaluation model in accordance with IAS 16 should always be determined based on the assumption that their carrying amount will be recovered through sale. NSD now evaluates the impact of the adoption of the amendment.

#### Amendment to IAS 19 Employee Benefits

Amendment to IAS 19 becomes effective for annual reporting periods beginning on or after 1 January 2013. The amendment introduces significant changes to the method of accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the “corridor approach”). In addition, the amendment limits changes in net pension assets (liabilities) recognized in profit or loss to net interest income (expense) and cost of services. The amendment will have no impact on NSD’s financial position and performance.

#### Amendment to IAS 1 Presentation of Financial Statements — Presentation of Other Comprehensive Income

Amendment to IAS 1 becomes effective for annual reporting periods beginning on or after 1 July 2012. The amendment changes the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time (for example, upon derecognition or settlement of an asset) would be presented separately from items that will never be reclassified. The amendment affects presentation only and will have no impact on NSD’s financial position and performance.

## 5. CHANGES IN PRESENTATION

As at 31 December 2010 and 2009 and for the years then ended changes were made to the presentation of the following items in the statement of financial position, to conform to the presentation as at 31 December 2011 and for the year then ended, as the current year presentation provides better view of the financial position of NSD:

- As at 31 December 2010 and 2009, balances on correspondent accounts with banks included in Cash equivalents were transferred from Amounts due from banks to Cash and cash equivalents in the amount of RUB 1,788,529 thousand and RUB 316,402 thousand, respectively;
- As at 31 December 2010, distributions payable to holders of securities in the amount of RUB 2,993,020 thousand were presented separately from other liabilities.



## 6. BUSINESS COMBINATIONS

On 3 November 2010 MICEX SH was reorganized in the form of merger with NDC. At the same time MICEX SH changed its name to Non-Banking Credit Organization Closed Joint-Stock Company National Settlement Depository (Notes 1 and 20).

NDC and MICEX SH were subsidiaries of MICEX at the time of the transaction.

At the date of merger the carrying amounts of NDC's assets and liabilities received in the course of merger were as follows:

	Total	Including balances with MICEX SH
Cash and cash equivalents	668,386	654,352
Due from banks	2,285,909	—
Property, equipment and intangible assets	58,085	—
Investments in associates	124,895	—
Trade receivables	170,120	—
Other assets	130,596	—
Distributions payable to holders of securities	(389,981)	—
Trading liabilities	(121,847)	—
Other liabilities	(35,365)	(597)
Deferred tax liabilities	(8,073)	—
<b>Total</b>	<b>2,882,725</b>	

Net cash inflow as a result of the merger amounted to RUB 14,034 thousand.

## 7. FEE AND COMMISSION INCOME

	Year ended 31 December 2011	Year ended 31 December 2010
Depository operations	1,600,211	285,815
Settlement operations	119,694	107,412
Information services	21,085	22,386
Other	1,019	9,535
<b>Total fee and commission income</b>	<b>1,742,009</b>	<b>425,148</b>

## 8. INTEREST INCOME

	Year ended 31 December 2011	Year ended 31 December 2010
Interest on deposits with the CBR	723,546	728,784
Interest income on amounts due from banks	306,929	12,821
Interest income on other placements	17,680	—
<b>Total interest income</b>	<b>1,048,155</b>	<b>741,605</b>

## 9. PERSONNEL EXPENSES

	Year ended 31 December 2011	Year ended 31 December 2010
Personnel expenses	777,820	371,537
Payroll related taxes	74,356	39,432
<b>Total personnel expenses</b>	<b>852,176</b>	<b>410,969</b>

## 10. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	Year ended 31 December 2011	Year ended 31 December 2010
Lease of property and equipment	172,728	111,431
Taxes (other than income tax)	82,830	60,248
Depreciation of property and equipment	57,974	6,941
Professional services	49,021	23,104
Amortization of intangible assets	47,112	11,801
Maintenance of property, equipment and intangible assets	45,490	35,375
Insurance	27,203	13,141
Write-down of materials and inventories	18,886	3,876
Charge of allowances for potential losses	17,836	4,106
Advertising	15,613	5,979
Corporate events	14,274	13,355
Communications and telecommunication	13,522	12,684
Business trip expenses	10,766	2,796
Office stationary	5,608	3,876
Loss on disposal of property, equipment and intangible assets	4,480	265
Charity	3,419	2,406
Security	3,094	6,399
Other	25,395	13,093
<b>Total administrative and other operating expenses</b>	<b>615,251</b>	<b>330,876</b>

Professional services comprise consulting, audit and legal services.

## 11. INCOME TAX

NSD calculates current income tax based on the tax accounts maintained and prepared in accordance with the tax regulations of the Russian Federation which may differ from IFRS.

NSD has certain permanent tax differences due to non-tax deductibility of certain income and expenses.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial

reporting purposes and the amounts used for tax purposes.

Temporary differences at 31 December 2011 and 2010 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Tax effects of temporary differences as at 31 December 2011 and 2010 are as follows:

	31 December 2011	31 December 2010
<b>Tax effect of deductible temporary differences:</b>		
Accounts payable	3,961	4,306
Property and equipment	13,707	—
Other non-financial assets	—	4,583
Financial assets at fair value through profit or loss	135,781	3,696
	<b>153,449</b>	<b>12,585</b>
<b>Tax effect of taxable temporary differences:</b>		
Investments accounted for using equity method	(4,958)	(4,958)
Other non-financial assets	(1,378)	—
Intangible assets	(3,932)	—
Property and equipment	—	(4,394)
	<b>(10,268)</b>	<b>(9,352)</b>
<b>Tax effect of deductible temporary differences, net</b>	<b>143,181</b>	<b>3,233</b>

Reconciliation of income tax expense and accounting profit for the years ended 31 December 2011 and 2010 is presented below:

	Year ended 31 December 2011	Year ended 31 December 2010
<b>Profit before income tax</b>	<b>2,893,735</b>	<b>1,379,640</b>
Statutory tax rate	20%	20%
Tax at the statutory tax rate	578,747	275,928
Tax effect of income taxed at different rates	(122,930)	—
Tax effect of permanent differences	28,922	19,226
<b>Income tax expense</b>	<b>484,739</b>	<b>295,154</b>
Current income tax expense	624,687	303,126
Change in deferred income tax	(139,948)	(7,972)
<b>Income tax expense</b>	<b>484,739</b>	<b>295,154</b>

Deferred tax assets are as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
<b>As at 1 January</b>	<b>3,233</b>	<b>3,334</b>
Change in deferred income tax balances recognized in profit or loss	139,948	7,972
Business combination (Note 6)	—	(8,073)
<b>As at 31 December</b>	<b>143,181</b>	<b>3,233</b>

## 12. CASH AND CASH EQUIVALENTS

	31 December 2011	31 December 2010
Balances with the CBR:		
— balances with the CBR	50,247,056	37,159,944
— deposits with the CBR	—	13,501,110
Due from banks:		
— Russian Federation	15,023,429	1,300
— Organization for Economic Cooperation and Development countries	1,530,680	1,787,229
— other countries	62	—
Cash on hand	7,639	4,793
<b>Total cash and cash equivalents</b>	<b>66,808,866</b>	<b>52,454,376</b>

## 13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2011		31 December 2010	
	Coupon rate, %	Amount	Coupon rate, %	Amount
Debt securities issued by the government of the Russian Federation	6%–12%	37,526,505	—	—
Debt securities issued by the CBR	—	—	zero coupon, with yield of 3.64%	20,151,276
<b>Total financial assets at fair value through profit or loss</b>		<b>37,526,505</b>		<b>20,151,276</b>

As at 31 December 2011, financial assets at fair value through profit or loss in the amount of RUB 7,129,031 thousand were placed on a designated depository account "Encumbered

securities" intended for the purposes of collateralised lending from the CBR.

#### 14. DUE FROM BANKS

As at 31 December 2010, due from banks comprised deposits with three Russian banks totaling RUB 950,000 thousand plus accrued interest.

#### 15. INVESTMENTS IN ASSOCIATES

	31 December 2011		31 December 2010	
	Interest, %	Carrying amount	Interest, %	Carrying amount
CJSC Settlement depository company (SDCO (CJSC))	28.54%	514,237	28.54%	126,905
<b>Total investments in associates</b>		<b>514,237</b>		<b>126,905</b>

As at 31 December 2011 and 2010, the carrying amount of investments in associates was as follows:

<b>Investments in associates as at 31 December 2009</b>		
Business combination (Note 6)		124,895
NSD's share of SDCO's financial result after tax		2,010
<b>Investments in associates as at 31 December 2010</b>		<b>126,905</b>
Investments in SDCO		342,515
NSD's share of SDCO's financial result after tax		44,817
<b>Investments in associates as at 31 December 2011</b>		<b>514,237</b>

During 2011 SDCO issued additional shares. As a result of the issue, share of NSD in SDCO's share capital remained unchanged.

As at 31 December 2011 and for the year then ended, assets, liabilities, revenue and net profit of the associate were as follows:

Associate	Total assets of the associate	Total liabilities of the associate	Revenue of the associate	Net profit
SDCO	3,949,274	2,180,897	214,669	157,016

As at 31 December 2010 and for the year then ended, assets, liabilities, revenue and net profit of associate were as follows:

Associate	Total assets of the associate	Total liabilities of the associate	Revenue of the associate	Net profit
SDCO	3,668,457	3,256,598	113,870	47,670

**16. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS**

	Land	Buildings and other real estate	Other	Total property and equipment	Intangible assets	Total
<b>31 December 2009</b>	–	<b>1,646,103</b>	<b>83,809</b>	<b>1,729,912</b>	<b>94,182</b>	<b>1,824,094</b>
Additions	–	–	18,942	18,942	73,486	92,428
Disposals	–	–	(8,832)	(8,832)	(3,071)	(11,903)
Effect of merger with NDC	–	–	80,198	80,198	37,862	118,060
<b>31 December 2010</b>	–	<b>1,646,103</b>	<b>174,117</b>	<b>1,820,220</b>	<b>202,459</b>	<b>2,022,679</b>
Additions	22,274	–	187,447	209,721	47,847	257,568
Disposals	–	–	(11,306)	(11,306)	–	(11,306)
<b>31 December 2011</b>	<b>22,274</b>	<b>1,646,103</b>	<b>350,258</b>	<b>2,018,635</b>	<b>250,306</b>	<b>2,268,941</b>
<b>Accumulated depreciation and amortization</b>						
<b>31 December 2009</b>	–	<b>5,487</b>	<b>50,713</b>	<b>56,200</b>	<b>32,815</b>	<b>89,015</b>
Charge for the period	–	–	6,941	6,941	11,801	18,742
Disposals	–	–	(8,657)	(8,657)	(3,071)	(11,728)
Effect of merger with NDC	–	–	38,374	38,374	21,601	59,975
<b>31 December 2010</b>	–	<b>5,487</b>	<b>87,371</b>	<b>92,858</b>	<b>63,146</b>	<b>156,004</b>
Charge for the period	–	32,922	25,052	57,974	47,112	105,086
Disposals	–	–	(10,898)	(10,898)	–	(10,898)
<b>31 December 2011</b>	–	<b>38,409</b>	<b>101,525</b>	<b>139,934</b>	<b>110,258</b>	<b>250,192</b>
<b>Net book value</b>						
<b>31 December 2010</b>	–	<b>1,640,616</b>	<b>86,746</b>	<b>1,727,362</b>	<b>139,313</b>	<b>1,866,675</b>
<b>31 December 2011</b>	<b>22,274</b>	<b>1,607,694</b>	<b>248,733</b>	<b>1,878,701</b>	<b>140,048</b>	<b>2,018,749</b>

Intangible assets include computer software and licences.

**17. OTHER ASSETS**

	31 December 2011	31 December 2010
<b>Other financial assets</b>		
Receivables on depositary operations	217,800	156,435
Receivables on fees, commissions and other operations	11,561	102,194
Available-for-sale investments	6,551	6,551
<b>Total other financial assets</b>	<b>235,912</b>	<b>265,180</b>
<b>Other non-financial assets:</b>		
Prepaid expenses	566,670	18,186
Settlements with the budget on taxes other than income tax	40,820	29,700
<b>Total other assets</b>	<b>843,402</b>	<b>313,066</b>

Included in investments available-for-sale as at 31 December 2011 and 2010 were shares of CJSC Saint-Petersburg Currency Exchange with a carrying amount of RUB 6,551 thousand (interest in the share capital of 2%).

Included in prepaid expenses as at 31 December 2011 and 2010 were advances in the amount of RUB 517,326 thousand and RUB 443 thousand, respectively, for the services under office building construction for own use.



## 18. BALANCES OF MARKET PARTICIPANTS

	31 December 2011	31 December 2010
Balances of market participants — credit institutions	52,775,667	22,376,812
Balances of market participants — financial companies	45,952,627	42,139,729
<b>Total balances of market participants</b>	<b>98,728,294</b>	<b>64,516,541</b>

As of 31 December 2011 and 2010, balances of market participants in the amount of RUB 45,297,468 thousand (46%) and RUB 26,208,489 thousand (41%), respectively, related to 10 market participants, which represent significant concentration.

## 19. OTHER LIABILITIES

	31 December 2011	31 December 2010
<b>Other financial liabilities:</b>		
Payable to employees	35,306	18,811
Trade payables	31,338	8,008
Other	—	780
<b>Total other financial liabilities</b>	<b>66,644</b>	<b>27,599</b>
<b>Other non-financial liabilities:</b>		
Advances received for depository services	142,979	129,268
Taxes payable other than income tax	63,753	97,898
<b>Total other liabilities</b>	<b>273,376</b>	<b>254,765</b>

## 20. SHARE CAPITAL

As at 31 December 2011 and 2010, NSD's share capital comprised 1,180,675 ordinary registered shares with a par value of RUB 1,000 each.

Share capital is reported in accordance with IAS 29 Financial Reporting in Hyperinflationary Economies. As of 31 December 2011 and 2010, the share capital including inflation adjustment amounted to RUB 1,193,982 thousand.

During 2010 MICEX repurchased shares of NDC and MICEX SH from other shareholders. As a result, MICEX's share in NDC and MICEX SH comprised 100% and 99.82%, respectively, as at 3 November 2010. At that date MICEX SH was renamed to NSD, ordinary shares of NDC were converted into 925,675 ordinary shares of NSD. As a result, the share capital was increased by RUB 925,675 thousand, share premium from ordinary shares placement amounted to RUB 1,957,050 thousand (Notes 1 and 6).

The reserves distributable among NSD's shareholders are limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable reserves are represented by a statutory general reserve which is created as required by the regulations of the Russian Federation, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with NSD's charter, that provides for it to be not less than 15% of NSD's share capital reported in accordance with RAS. As at 31 December 2011 and 2010, reserve fund balances amounted to RUB 177,101 thousand and RUB 38,250 thousand, respectively.

## 21. CONTINGENT FINANCIAL LIABILITIES

*Operating lease* — Where NSD is the lessee, the future minimum lease payments of NSD under non-cancellable operating leases of premises, parking slots, software and equipment are as follows:

	31 December 2011	31 December 2010
Less than 1 year	28,067	16,552
More than 1 year and no more than 5 years	9,443	13,774
<b>Total operating lease liabilities</b>	<b>37,510</b>	<b>30,326</b>

*Legal proceedings* — From time to time and in the normal course of business, claims against NSD may be received from customers and counterparties. Management believes that no material losses will be incurred by NSD as a result of such claims, and accordingly no provisions have been made in these financial statements.

*Taxation* — Provisions of the Russian tax legislation are sometimes inconsistent and may have more than one interpretation, which allows the Russian tax authorities to make decisions based on their own arbitrary interpretations of these provisions. In practice, the Russian tax authorities often do not interpret the tax legislation in favor of the taxpayers, who have to resort to court proceedings to defend their position against the tax authorities. It should be noted that in interpreting NSD's actions the Russian tax authorities can use the clarifications issued by the judicial bodies that have introduced the concepts of "unjustified tax benefit" and "primary commercial goal of transaction" and the criteria of "commercial purpose (substance) of transaction".

In particular, such uncertainty may be attributed to tax treatment of financial instruments and determination of the market price of transactions. Management of NSD believes that all necessary taxes have been charged and no respective provisions are required.

Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates. Also, according to the clarification of the Russian Federation Constitutional Court, the statute of limitation for tax liabilities may be extended if a court determines that the taxpayer has obstructed or hindered a tax inspection.

*Operating environment* — Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The global financial crisis has affected the Russian economy. While there are signs of economic recovery, the persisting uncertainty over the future economic growth, access to capital and cost of capital could affect NSD's financial position, results of operations and business prospects. Also, factors including reduced corporate liquidity and profitability, and increased corporate and personal insolvencies, have affected NSD's counterparties and clients' ability to pay the amounts due to NSD.

Management believes it is taking appropriate measures to support the sustainability of NSD's business in the current circumstances. However, unexpected further deterioration in the areas described above could negatively affect NSD's results and financial position in a manner not currently determinable.



## 22. TRANSACTIONS WITH RELATED PARTIES

### (a) Control relationships

NSD is a subsidiary of MICEX-RTS holding 99.997% and 99.961% shares as at 31 December 2011 and 2010, respectively.

As at 31 December 2011 and 2010, the entities controlled by the Russian Federation together hold more than 40% and 60% of shares of MICEX-RTS, respectively.

### (b) Transactions with the members of the Supervisory Board and the Executive Board

Compensations to directors and other key management personnel for 2011 and 2010 comprised RUB 54,078 thousand and RUB 37,690 thousand, respectively.

### (c) Transactions with related parties

NSD considers government-related entities as related parties if the Russian Federation has direct or indirect control or significant influence over the entity. Transactions with government-related entities represent a significant portion of NSD's transactions. Such transactions include settlement services, accepting deposits, placement of funds with government-related banks, as well as bonds issued by the Russian Federation, property and equipment lease, information and technical services.

## 23. FAIR VALUE OF FINANCIAL ASSETS

The management believes that the fair value of NSD's financial assets and liabilities approximates their carrying amounts.

The following table presents the analysis of financial assets recorded at fair value after initial recognition by level of the fair value hierarchy. Each level reflects the possibility to determine the fair value based on market quotations:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument;
- Level 2: Valuation techniques based on inputs (except for quotations determined for Level 1) observable, either directly (i. e., as quotations) or indirectly (i. e., derived from quotations);
- Level 3: This category includes all instruments where the valuation technique includes inputs not based on observable data (unobservable inputs).

	31 December 2011
	Quotations in an active market (Level 1)
Financial assets at fair value through profit or loss	37,526,505
	31 December 2010
	Quotations in an active market (Level 1)
Financial assets at fair value through profit or loss	20,151,276

## 24. CAPITAL MANAGEMENT

NSD's capital management policy is aimed to ensure successful and stable operations and to maximize shareholders' value.

The capital structure of NSD consists of share capital, share premium and retained earnings.

The capital structure is reviewed by NSD's Executive Board on an annual basis. As part of this review, the Executive Board considers changes in the cost of capital and the risks associated with each class of capital. Based on recommendations of the Executive Board, NSD balances its overall capital structure through the payment of dividends or new share issues.

The CBR established special requirements for credit institutions in respect of the minimum amount of capital adequacy calculated based on RAS financial statements.

The CBR requires non-banking credit institutions to maintain a ratio of capital to risk-weighted assets ("capital adequacy ratio") at a level exceeding the minimum ratio of 12%.

According to NSD's statutory reports its regulatory capital was as follows:

	31 December 2011	31 December 2010
Equity	6,055,350	7,867,734
Risk-weighted assets	11,656,849	7,806,932
<b>Capital adequacy ratio (N1)</b>	<b>51.95%</b>	<b>100.78%</b>
<b>Statutory capital ratio</b>	<b>12%</b>	<b>12%</b>

For the years ended 31 December 2011 and 2010, NSD complied with all imposed capital adequacy requirements.

## 25. RISK MANAGEMENT POLICIES

Key risks inherent in NSD's operations include credit, interest rate, currency, operating and information risks.

Elimination of manual data processing is one of the ways to mitigate operating risk. NSD constantly seeks to ensure maximum possible automated processes of information acceptance, transfer and processing. To minimize human errors NSD has established a system of multi-stage preliminary, current and subsequent control of personnel's compliance with the CBR regulatory requirements as well as orders, provisions and other internal regulations of NSD in performing their assigned functions.

NSD is exposed to information risk associated with the usage of electronic means of communication with clients, and arising at the stages of information processing by NSD, as there is a risk of misstatement including deliberate unauthorized data usage and misrepresentation as a result of unauthorized access.

Steps to mitigate information risk include applying cryptographic protection systems and tools, segregating user access rights to different technical systems and information resources of NSD depending on their responsibilities, regular data backup and archivation, regular mandatory change of passwords, keys for electronic signature and electronic communication channel encryption.

### Credit risk

Credit risk is the risk of losses as a result of the non-performance, late or partial performance by a debtor of its contractual financial obligations to the credit institution.

These financial liabilities include the borrower's liabilities related to interbank loans (deposits, borrowings), other placements and liabilities.

NSD is not exposed to significant credit risks due to the fact that it does not issue loans and guarantees, clients' settlement documents are executed only if they have balances with NSD, accounts of market participants and equity in Russian rubles are held on NSD's accounts with the CBR, on accounts with banks controlled by the Russian Federation and in investments in debt securities issued by the Russian Government.

NSD's maximum exposure to credit risk equals to the carrying value of amounts due to banks and bonds recorded in financial assets at fair value through profit or loss and other financial assets, and may vary significantly depending on individual risks inherent to certain assets, and general market risks.

Financial assets are graded according to the current credit rating they have been issued by an external internationally recognized agency such as Fitch, Standard & Poor's and Moody's. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB-. Financial assets which have ratings lower than BBB- are classed as speculative grade.

Sovereign credit rating of the Russian Federation corresponded to the investment grade of BBB according to the international rating agencies. As at 31 December 2011 and 2010, investments in various instruments of the CBR were as follows:

	31 December 2011	31 December 2010
Balances with the CBR	50,247,056	37,159,944
Deposits with the CBR	–	13,501,110
Financial assets at fair value through profit or loss	–	20,151,276
<b>Total investments in various instruments of the CBR</b>	<b>50,247,056</b>	<b>70,812,330</b>

The following table details the credit ratings of other financial assets as at 31 December 2011:

	31 December 2011				
	AA	BBB	Lower BBB-	Not rated	Total
<b>Financial assets:</b>					
Cash and cash equivalents	1,530,389	15,023,406	376	–	16,554,171
Financial assets at fair value through profit or loss	–	37,526,505	–	–	37,526,505
Other financial assets	–	–	–	229,361	229,361

As at 31 December 2010:

	31 December 2010,				
	AA	BBB	Lower BBB-	Not rated	Total
<b>Financial assets:</b>					
Cash and cash equivalents	1,735,761	42,626	1,413	8,729	1,788,529
Due from banks	–	653,677	253,783	53,601	961,061
Other financial assets	–	–	–	258,629	258,629

NSD makes decisions to accrue provision for impairment losses based on the maturity analysis of accounts receivable and the analysis of counterparties' financial position.



**Geographical concentration**

Geographical concentration of financial assets and liabilities  
was as follows:

	31 December 2011,			
	Russian Federation	OECD countries	Other	Total
<b>Financial assets:</b>				
Cash and cash equivalents	65,278,124	1,530,680	62	66,808,866
Financial assets at fair value through profit or loss	37,526,505	–	–	37,526,505
Investments in associates	514,237	–	–	514,237
Other financial assets	235,912	–	–	235,912
<b>Total financial assets</b>	<b>103,554,778</b>	<b>1,530,680</b>	<b>62</b>	<b>105,085,520</b>
<b>Financial liabilities:</b>				
Balances of market participants	98,728,294	–	–	98,728,294
Distributions payable to holders of securities	2,657,080	–	–	2,657,080
Other financial liabilities	64,878	1,766	–	66,644
<b>Total financial liabilities</b>	<b>101,450,252</b>	<b>1,766</b>	<b>–</b>	<b>101,452,018</b>

  

	31 December 2011,			
	Russian Federation	OECD countries	Other	Total
<b>Financial assets:</b>				
Cash and cash equivalents	50,666,967	1,787,155	254	52,454,376
Financial assets at fair value through profit or loss	20,151,276	–	–	20,151,276
Due from banks	961,061	–	–	961,061
Investments in associates	126,905	–	–	126,905
Other financial assets	240,091	25,089	–	265,180
<b>Total financial assets</b>	<b>72,146,300</b>	<b>1,812,244</b>	<b>254</b>	<b>73,958,798</b>
<b>Financial liabilities:</b>				
Balances of market participants	64,516,541	–	–	64,516,541
Distributions payable to holders of securities	2,993,020	–	–	2,993,020
Other financial liabilities	27,001	598	–	27,599
<b>Total financial liabilities</b>	<b>67,536,562</b>	<b>598</b>	<b>–</b>	<b>67,537,160</b>

**Liquidity risk**

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

According to Russian laws non-banking settlement credit institutions are entitled to invest on their behalf and at their own expense within the statutory limits in the following financial assets:

- in debt securities issued by the Russian Government;
- in deposits with and bonds issued by the CBR;
- in loans and deposits placed with non-resident banks from developed countries with BBB (or higher) grade assigned by international rating agency Standard & Poor's or with the similar (or higher) grade assigned by Fitch Ratings, Moody's, and with credit institutions, residents of the Russian Federation;
- in debt securities issued by governments of developed countries with BBB (or higher) grade assigned by international rating agency Standard & Poor's or with the similar (or higher) grade assigned by Fitch Ratings, Moody's.

Therefore NSD places temporarily available funds on accounts with banks, debt securities issued by the Russian Government, deposits with the CBR maturing within 30 calendar days and discount bonds issued by the CBR. Amounts of deposits placed with the CBR and holdings of bonds issued by the CBR are determined on a daily basis within the limits established by decision of the Supervisory Board of NSD. Thus, NSD controls liquidity risk by short-term placement of temporarily available funds only in highly liquid and liquid assets.

The liquidity position is controlled on a daily basis by NSD's accounting department. The ratio of liquid assets maturing within 30 calendar days to liabilities is calculated on a daily basis based on accounting records.

As at 31 December 2011 and 2010, undiscounted cash flows for financial liabilities were not different from their carrying amounts.





**Fair value interest rate risk**

Due to the specific nature of its activities, NSD is exposed to interest rate risk. NSD does not have material interest bearing obligations. Interest rates on due from banks are fixed and set for a short period of time. NSD's assets sensitive to market interest rate changes are represented by the trading portfolio of highly liquid debt securities.

The sensitivity analysis presented below was performed taking into account risks of fluctuations in the interest rate as at the reporting date. The calculation is based on the assumption of interest rate change by 200 basis points as at 31 December 2011 (31 December 2010: 100 bp) which is in line with management's expectations concerning reasonably possible fluctuations in interest rates.

	31 December 2011		31 December 2010	
	Net profit	Equity	Net profit	Equity
200 bp rise (31 December 2010: 100 bp)	(377,804)	(377,804)	(39,132)	(39,132)
200 bp fall (31 December 2010: 100 bp)	387,178	387,178	43,137	43,137

**Currency risk**

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign currency rates.

NSD's exposure to currency risk is presented in the tables below:

	31 December 2011,				
	RUB	USD	EUR	Other currencies	Total
<b>Financial assets:</b>					
Cash and cash equivalents	65,277,754	1,500,109	30,545	458	66,808,866
Financial assets at fair value through profit or loss	37,526,505	—	—	—	37,526,505
Investments in associates	514,237	—	—	—	514,237
Other financial assets	235,635	149	125	3	235,912
<b>Total financial assets</b>	<b>103,554,131</b>	<b>1,500,258</b>	<b>30,670</b>	<b>461</b>	<b>105,085,520</b>
<b>Financial liabilities:</b>					
Balances of market participants	97,190,061	1,500,579	37,588	66	98,728,294
Distributions payable to holders of securities	2,655,300	1,780	—	—	2,657,080
Other financial liabilities	66,333	65	246	—	66,644
<b>Total financial liabilities</b>	<b>99,911,694</b>	<b>1,502,424</b>	<b>37,834</b>	<b>66</b>	<b>101,452,018</b>
<b>Open position</b>	<b>3,642,437</b>	<b>(2,166)</b>	<b>(7,164)</b>	<b>395</b>	

	31 December 2011,				
	RUB	USD	EUR	Other currencies	Total
<b>Financial assets:</b>					
Cash and cash equivalents	50,667,189	1,731,198	55,989	—	52,454,376
Financial assets at fair value through profit or loss	20,151,276	—	—	—	20,151,276
Due from banks	960,856	—	—	205	961,061
Investments in associates	126,905	—	—	—	126,905
Other financial assets	263,756	130	1,098	196	265,180
<b>Total financial assets</b>	<b>72,169,982</b>	<b>1,731,328</b>	<b>57,087</b>	<b>401</b>	<b>73,958,798</b>
<b>Financial liabilities:</b>					
Balances of market participants	62,750,734	1,729,601	36,206	—	64,516,541
Distributions payable to holders of securities	2,993,020	—	—	—	2,993,020
Other financial liabilities	26,345	117	1,134	3	27,599
<b>Total financial liabilities</b>	<b>65,770,099</b>	<b>1,729,718</b>	<b>37,340</b>	<b>3</b>	<b>67,537,160</b>
<b>Open position</b>	<b>6,399,883</b>	<b>1,610</b>	<b>19,747</b>	<b>398</b>	

### Analysis of sensitivity to currency risk

The following table presents the analysis of NSD's sensitivity to 10% increase and decrease in the US dollar against the Russian ruble. 10% is the sensitivity level used by NSD in preparing reports on currency risks for NSD's key management personnel and represents management assessment of reasonably possible changes in currency rates. The sensitivity analysis involves only foreign currency denominated monetary items outstanding at the period date, and currency rates adjusted by 10% compared to the rates prevailing at the end of the period.

	31 December 2011		31 December 2010	
	USD	EUR	USD	EUR
	10%	10%	10%	10%
10% ruble appreciation	31	573	(129)	(1,580)
10% ruble depreciation	(31)	(573)	129	1,580

Effect of changes in currency rates on net profit and equity based on the nominal value of asset as at 31 December 2011 and 2010 was as follows:

### Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities may be non-linear, thus the results should not be interpolated or extrapolated.

The sensitivity analysis does not take into consideration that NSD's assets and liabilities are actively managed. Additionally, NSD's financial position may vary at the time that any actual market movement occurs. For example, NSD's financial risks management strategy is aimed at managing the exposure to market fluctuation. In the event of sharp negative fluctuations of prices on the securities market, management actions could include selling investments, changing investment portfolio allocation, and taking other protective measures. Consequently, changes in assumptions may not produce effect on liabilities, while significantly influencing assets recognized at the market value in the statement of financial position. In these circumstances, the different measurement bases for assets and liabilities may lead to significant equity fluctuations.

Other limitations in the above sensitivity analysis include the use of hypothetical market movements to demonstrate potential risk that only represent NSD's view of future market changes that cannot be predicted with any certainty. Another assumption is that all interest rates change in a similar way.

### 26. SUBSEQUENT EVENTS

On 12 April 2012, NSD purchased 97.76% of ordinary shares of Closed Joint-Stock Company "Depository Clearing Company" (DCC) from the parent.

The merger of NSD and DCC was performed as part of the process of establishing the Central Depository in Russia. Operational conditions of NSD and DCC were agreed upon with the Federal Financial Markets Service on 13 July 2011.



