



Public CSD Rating Report

National Settlement Depository

Publication Date: December 2014

Thomas Murray CSD Public Rating for: **National Settlement Depository** is **AA-**

CSD Rating	Overall Rating	Asset Commitment Risk	Liquidity Risk	Counterparty Risk	Asset Safety Risk	Asset Servicing Risk	Financial Risk	Operational Risk	Governance & Transparency
NSD Rating:	AA-	AA-	A+	AA-	AA-	AA-	AA	AA-	AA-

The outlook for the rating is: **Stable**

Overall Risk Summary

Thomas Murray has issued a public rating of AA- to the National Settlement Depository (NSD) which means very low risk. The outlook is On watch. The rating is a weighted average of eight distinct risk components comprised of Asset Commitment Risk, Liquidity Risk, Counterparty Risk, Asset safety Risk, Asset Servicing Risk, Financial Risk, Operational Risk and Governance and Transparency Risk.

NSD became the central securities depository (CSD) in Russia in November 2012 when it was appointed by the regulator as the only CSD in Russia.

The T+2 model used for most on-exchange transactions, as well as the model for OTC settlements result in short asset commitment periods for buyers and sellers as securities and cash are not blocked. Pre-funded trades (on-exchange government bonds and non-liquid equities) have longer asset commitment periods due to the pre-funding requirement prior to trading.

Liquidity and counterparty risks for on-exchange trades which are cleared by the National Clearing Centre (NCC) is mitigated by the use of NCC as a central counterparty which has strong management and fails procedures in place. However, off-exchange trades have a higher degree of risk exposure due to the lack of centralised fails management procedures and the use of non-DVP settlement for the majority of trades. In addition, are exposed to NSD, which holds both the cash and securities accounts.

In the area of asset safety, the legislation improved recently with the recognition of the foreign nominee concept. NSD has implemented foreign nominee accounts and provides omnibus and beneficial owner accounts for domestic participants. Cash accounts are also held in omnibus accounts at NSD. Almost 100% of securities are dematerialised.

Asset Servicing is considered as the weakest area as there is significant manual interaction and the lack of a centralised source of market information. However, the high rating reflects the high level of liability that NSD must accept in accordance with Russian Civil law, which protects participants in the event of losses caused by an incorrectly processed event.

The Financial Risk rating is strong due to the high capital level that NSD has compared to other CSDs, the amount of liquid reserves which are enough to cover over 18 months of expenses, its insurance coverage and the fact that the company has been highly profitable in the past few years.

NSD has developed a risk matrix identifying the main processes and the controls associated with them. However, further work is expected to customise it and expand it. Some areas, in particular related to asset servicing, are still highly manual, however, NSD has significant controls related to them. There has also been a separation between the internal control and internal audit department which will allow audit to move away from compliance issues. The disaster recovery and business continuity plans appear to be well established although further improvements can be made.

Governance arrangements appear to have improved with the inclusion of additional independent members in the Board (currently 1/3rd) which include 2 foreign experts. This has resulted in an upgrade in Governance and Transparency Risk. The Supervisory Board has 4 committees in place which are complimented by 5 user committees. Significant decision impacting participants are discussed within the relevant User Committees before they are proposed and approved by the Supervisory Board. NSD discloses good corporate information and some statistical information.

Outlook Summary

The outlook for the National Settlement Depository (NSD) rating is 'Stable'. Despite the number of planned developments, it is unlikely that the overall rating will change although some changes to the individual risk factors may be upgraded following their implementation. The main developments are as follows:

- The further development of a collateral management system may improve the liquidity requirements to market participants when performing repos on Moscow Exchange, federal treasury and the interdealer market.
- Planned developments in the corporate actions area such as implementation of SWIFT messages, a web based solution and electronic voting should reduce some risks in asset servicing.
- Development of NSD as a central source of market information although a longer term plan, it will facilitate the flow of corporate actions information for participants.
- Cash settlement in central bank funds will reduce the exposure of participants to NSD by having the option of settling through their bank accounts at the central bank.
- The centralised electronic pre-matching facility will automate the matching process between brokers and banks and should in turn improve the STP rate and reduce fails in the market.
- The FX service will allow participants to convert funds in a different currency in near real-time.
- The switch of government bonds to a T+1 cycle with NCC as central counterparty will eliminate the pre-funding requirements and standardise the settlement model for these instruments.
- The development of the repo and securities lending markets by introducing a securities pool should reduce liquidity constrain for participants by providing additional mechanisms to obtain cash and securities respectively.

Role of the Depository

National Settlement Depository (NSD) superseded the National Depository Centre (NDC) following its merger with the MICEX Settlement House (MICEX SH) in November 2010. The old NDC began operations in March 1998. Later in 1998, the partnership was joined by several major domestic commercial banks. It was legally established under the Foundation Agreement and the Charter of NDC. NSD is the largest settlement depository in Russia and is a part of the Moscow Exchange Group.

NSD provides storage of global certificates and depository accounting for 99% of corporate bond issues, sub-federal and municipal bond issues. It provides services for 100% of transactions conducted in the federal and the Bank of Russia bond markets, more than 99% of transactions conducted in the corporate and regional bond markets, majority of transactions with equities and also provides services for UIT units and securities of foreign issuers.

NSD is a central system for handling Moscow Exchange-traded securities.

NSD holds licenses for settlement depository and clearing activities from Russia's former regulator Federal Service for Financial Markets (FFMS) as well as a restricted banking licence from the Central Bank of Russia (Bank of Russia). On 26 December 2012, the Central Bank of Russia assigned the status of payment system operator to NSD, under the registered name "NSD Payment System", in the end of July 2014 it was recognized as a payment system of "national importance". NSD also holds a central securities depository (CSD) licence from the regulator which it was granted on 6 November 2012. NSD's operations as a settlement depository are governed by the Civil Code, the Federal Law on the Securities Market, Federal Law on the Joint Stock Companies, government decisions and various other regulations. NSD is regulated by the Bank of Russia since all financial markets regulatory, controlling and supervisory powers of FFMS have been transferred to the Central Bank of Russia (CBR) starting from 1 September 2013.

Bonds are safekept at NSD in either dematerialised or immobilised form (via global certificates). Equities are held at the registrars in dematerialised form.

The National Clearing Centre (NCC), a subsidiary of Moscow Exchange, acts as the clearing house and CCP for the most liquid securities, controlling the DVP process for Rouble settlements of on-exchange trades and FX settlements. NSD provides DVP settlement for off-exchange trades, controlling the DVP process with internal cash settlement. Use of NSD is compulsory for government, municipal and regional bonds and equities traded on the MICEX Stock Exchange. NSD is also Russia's national numbering agency and the substitute numbering agency for the CIS, authorised to assign the international ISIN and CFI codes.

NSD operates as a trade repository in respect of all types of OTC contracts stipulated in Paragraph 6 of Clause 51.5 of the Federal Law "On the Securities Market". These contracts include repos, derivatives and other types of contracts concluded on the basis of the general agreement (unified contract). Also, NSD has a MoU with REGIS-TR, the European Trade Repository owned by Clearstream (Deutsche Börse Group) and Iberclear (BME) to intensify their cooperation on the mutual exchange of information.

NSD has the Pre-LOU (Local Operating Unit) status granted by the Regulatory Oversight Committee (ROC), the supervisory body established by the Financial Stability Board (FSB), which allows NSD to operate as the Russian Legal Entity Identifier (LEI) within the project that permits to identify all participants of global financial transactions based on a unique 20-digit code.

In September 2014, NSD also was recognised by CBR as a systemically important CSD, a systemically important settlement depository and a systemically important repository.

Risk Summary	Risk
<i>Overall Risk</i>	AA-
<p data-bbox="108 264 432 297">Asset Commitment Risk</p> <p data-bbox="108 338 1230 510">The asset commitment period may vary depending on the type of trade and settlement mode. For on-exchange fully pre-funded trades, the asset commitment period varies between 9 hours (T+0) and 48 hours (T+2) for both buyers and sellers. Buyers and sellers of partial pre-funded trades (liquid securities) have an asset commitment period of about 30 minutes which is the time it takes to process the end of day batch.</p> <p data-bbox="108 555 1254 656">DVP OTC trades and non-prefunded on –exchange (Negotiated Deals without a CCP and simple clearing) have a short asset commitment period of a few minutes which is the time it takes to transfer securities and cash. A large value of OTC transactions settles FOP with an asset commitment period that can exceed a day.</p>	AA-
<p data-bbox="108 712 300 745">Liquidity Risk</p> <p data-bbox="108 786 1273 925">Liquidity risk for pre-funded settlements is low since both securities and cash are pre-funded and immediately available for settlement on a net basis. For liquid securities settled under the partial pre-funding model, NCC, which acts as central counterparty, has some fails management procedures in place such as repos and reverse repos, collateral, guarantee funds, etc.</p> <p data-bbox="108 969 1257 1037">Liquidity risk for off-exchange settlements and on-exchange trades without a CCP is higher since settlement completed on a gross basis and other liquidity improving mechanisms are generally absent.</p>	A+
<p data-bbox="108 1093 355 1126">Counterparty Risk</p> <p data-bbox="108 1167 1249 1267">Counterparty risk between participants is reduced by the pre-funding requirements before trading for pre-funded on-exchange transactions and the integrated DVP arrangements. For other on-exchange trades, NCC acts as central counterparty and therefore has default management mechanisms in place.</p> <p data-bbox="108 1312 1281 1518">For off-exchange settlements, there is full counterparty exposure if the participant chooses to settle on an FOP basis (the vast majority in OTC trades). If settled DVP, there is no risk of principal loss, but some consequential market losses may occur since there are no fails management mechanisms. Both bank and non–bank participants must meet minimum capital requirements and must report regularly to their regulator – Central Bank of Russia. Participants have a counterparty risk exposure to NSD which manages the cash and securities accounts.</p>	AA-
<p data-bbox="108 1585 339 1619">Asset Safety Risk</p> <p data-bbox="108 1659 1273 1827">The nominee concept is recognised in Russia and participants can open accounts on an omnibus or beneficial owner basis. The vast majority of securities are dematerialised with equities mostly in registered form while bonds are held in bearer form. There are no liens on securities accounts except in the event of unpaid fees by a participant. Investors’ cash deposits have to be segregated from cash deposits of their broker, custodian bank and NSD.</p>	AA-
<p data-bbox="108 1888 379 1921">Asset Servicing Risk</p> <p data-bbox="108 1962 1273 2101">For asset servicing, NSD's liability is not limited to just gross negligence under local regulations and NSD has some insurance to cover this liability. However, some services considered as value added (e.g provision of corporate actions information, proxy voting, etc) have limited liability. NSD is the active recipient of information from issuers and registrars and in accordance with the requirements of Russian civil law, it takes</p>	AA-

limited responsibility for the accurate and timely dissemination of the information to participants once received from the source. It is mandatory for participants to pass instructions via NSD for corporate events of securities held at NSD and in turn NSD is liable for direct losses that arise from its role as an intermediary. NSD has an agreement with Interfax for the collection of corporate actions information. The electronic data interchange (EDI) on-line system is used to efficiently collect around 95% of corporate action information, to distribute all information to participants, and to provide an electronic platform for participants to instruct NSD. NSD is in the process of building an Automated Corporate Actions Systems which would increase STP.

NSD offers tax reclaim and proxy voting services, but they are not currently used by participants.

Financial Risk

NSD had a shareholders' equity RUB 9.048 billion (USD 275 million) as at 31 December 2013. It seems to be comparatively well capitalised compared to other CSDs in respect of securities under custody and its capital appears adequate for a depository that also holds cash accounts on behalf of participants. It also holds a significant amount of liquid assets (from proprietary funds and monies held on behalf of participants for settlement purposes) and insurance coverage for USD 65 million. Revenues are relatively stable since more than half of operating income is from safekeeping fees. However, a significant proportion of revenues (48.1% from January to September 2014) come from investments which can be more volatile and any changes have the ability to impact on NSD's profitability.

NSD must also take a high level of liability under Russian civil law and has some financial commitments including investments to develop full STP for corporate actions and becoming a central source of information in the market, however these have already been budgeted.

AA

Operational Risk

NSD has reported that it has internal control procedures in place to mitigate operational risk. A risk management team has been identified and designated to map the risk profile of the company. Financial reviews and audits are carried out at regular intervals by internal and external auditors. Operational reviews are undertaken by the Internal Control department; and an external IT audit was conducted by E&Y in 2013. NSD has continued to automate operational processes through use of its EDI system and is planning to automate the processing of corporate actions by implementing SWIFT.

NSD also improved its business continuity arrangements to increase the number of desks in its alternative site. Both the BCP and DRP arrangements are tested at least twice a year.

AA-

Governance and Transparency Risk

NSD has a board (Supervisory Board) of 15 directors of which there is one independent director. The chairman of the Supervisory Board is a non-executive director and the CEO of NSD is a member. There are four committees of the Supervisory Board, including an Audit Committee. Risk management, which has been accorded greater importance within NSD in recent years, reports through to the Management Board. The Internal auditor attends meetings of the Audit Committee but the external auditor responsible for the Operational Audit has not been invited to the meetings. There is no separate assessment of the performance of the Board. The link between NSD and its participants has been enhanced in recent years by the establishment of five user groups. NSD provides reasonable disclosure of corporate information, although it generally does not provide information on relevant capital market laws. It also provides some statistical information including information on corporate action activity.

AA-

CSD on CSD Credit Risk

NSD has a one-way link with CJSC National Depository Centre of Azerbaijan (NDC) and Central Depository of Kyrgyzstan (CD) and bilateral links with Clearstream Banking S.A., Euroclear Bank, Central Securities

Links Exist

Depository of the Republic of Kazakhstan (KACD), National Depository of Ukraine (NDU), Central Depository of Armenia (CDA) and Republican Central Securities Depository (RCDS) of the Republic of Belarus. Also, NSD has foreign nominee accounts at CJSC National Depository Centre of Azerbaijan (NDC) and Central Depository of Kyrgyzstan (CD).

Asset Commitment Risk

Summary

The asset commitment period may vary depending on the type of trade and settlement mode. For on-exchange fully pre-funded trades, the asset commitment period varies between 9 hours (T+0) and 48 hours (T+2) for both buyers and sellers. Buyers and sellers of partial pre-funded trades (liquid securities) have an asset commitment period of about 30 minutes which is the time it takes to process the end of day batch.

DVP OTC trades and non-pre-funded on-exchange (Negotiated Deals without a CCP and simple clearing) have a short asset commitment period of a few minutes, which is the time it takes to transfer securities and cash. A large value of OTC transactions settles FOP with an asset commitment period that can exceed a day.

Processing Cycles

NSD settles both on-exchange trades executed on Moscow Exchange and OTC trades. On-exchange trades settle mainly on a T+2 cycle (liquid securities) although T+0 to T+n is available for the negotiated deal mode with CCP. NCC acts as central counterparty and controls the DVP for these trades. For OTC trades, the settlement cycle is variable and can be agreed by the counterparties. NSD clears these transactions and there is optional DVP Models 1, 2 and 3 although the majority settle FOP.

(1) On-Exchange Trades (except Negotiated Deals without a CCP and Simple clearing)

The on-exchange market includes: equities, corporate bonds, government bonds and the repo market. The model used varies and can be a pre-funding market whereby Moscow Exchange requires the pre-delivery of securities to be sold in the trading sub-account of the participant with T+0 and T+2 cycles. There is also a partial pre-funding model for liquid securities whereby NCC requires full collateralisation of positions according to its risk management procedures. Participants may request a transfer of uncommitted securities from the trading sub-account to their main account or another account during the day (from 8.30am to 6.00pm), but Moscow Exchange checks the net position of the brokers before allowing the transfer to occur. This process takes around three minutes to complete. Committed securities and cash have to stay within the Moscow Exchange system and cannot be used externally for other purposes until settlement is completed.

Settlement of all on-exchange transactions on all listed stocks, Russian Depositary Receipts (RDRs), mutual-fund units, mortgage-participation certificates (MPCs), and foreign ETFs is on a T+2 basis with partial pre-funding (margining) using a DVP model 3 whereby securities and cash are netted. OFZs continue to trade in both the T+n and T+0 Main Trading Modes. Trading in all bonds (including OFZs) will continue in all regimes – repo, negotiated trades, Main Trading Mode T+0 – without a CCP.

a. T+0 Regime - government bonds, corporate bonds, subfederal and municipal bonds, eurobonds, foreign bonds and foreign DRs traded on the anonymous section

Trading of these securities takes place via the Moscow Exchange between 9.30am and 6.30pm. All securities and cash in the participants' (brokers) trading sub-accounts are blocked prior to trading by Moscow Exchange. Participants can add additional securities and cash to the trading sub-account during the day (e.g if they wish to sell more than the securities held in the trading sub-account or they are buying more securities than initially planned) by requesting Moscow Exchange to transfer the securities. Uncommitted securities or cash (i.e securities or cash that are not used for trading on a net basis) can also be transferred out of the trading sub-accounts by sending a request to Moscow Exchange.

Following the completion of trading at 7.00pm, Moscow Exchange sends a trading report to NCC, the clearinghouse, and NCC in turn executes the final netting process (completed at 6.305pm) and instructs NSD to transfer the securities and cash. Settlement is completed at 7.00pm. After settlement, Moscow Exchange receives the settlement report from NSD and the trading sub-accounts are unblocked. After 7.30pm, confirmations are sent to participants.

This settlement process involves interaction between three entities of Moscow Exchange Group: Moscow Exchange which checks intra-day cash and securities balances for settlement, NCC which nets positions at the end of the day and instructs NSD to transfer

the relevant securities and cash and NSD which executes settlements.

Moscow Exchange also has an additional settlement option for these securities called “simple clearing”. Under this option, transactions can settle real-time as soon as sufficient securities and cash are available in the participants’ accounts. This option is mainly used for large value trades although less than 1% of trades settle under this mechanism.

Currently, NCC acts as clearing house by controlling the DVP and instructing NSD to transfer the required securities and cash previously blocked by Moscow Exchange. It is planned that NCC will become the central counterparty after Moscow Exchange introduces a T+2 settlement mode using margining and eliminates the pre-funding requirements.

Effective 9 June 2014, NCC introduced an additional clearing session at 4.00pm for trades executed on Moscow Exchange’s Main Market sector. The existing clearing session held at 7.00pm continues to be conducted as per normal. Accordingly, NSD will run two settlement processes following NCC’s instructions and report to clients the results of such sessions. NSD has also advised that it will charge a settlement fee after each clearing session.

b. Partial Prefunding T+2 Regime

In the anonymous trading session, the most liquid 50 securities settle on a T+2 basis using the National Clearing Centre (NCC) as central counterparty. NCC and Moscow Exchange require margining for these securities based on the net debits and credits of the clearing members (please refer to Counterparty Risk for further details). Trading takes place from 9.45am to 6.30pm.

There is an end of day settlement session on a Model 3 basis. NCC calculates the net positions of each clearing member after 6.30pm and sends instructions electronically to NSD to transfer the relevant amount of securities and cash. The settlement batch is completed at 7.00pm. Securities and cash are not committed at any time except for the duration of the settlement batch.

c. Fully Pre-funded T+2 Regime

For non-liquid stocks, Moscow Exchange requires fully pre-funding of securities and cash prior to trading. Both securities and cash are settled in the end of day batch cleared by NCC, whereby, NCC instructs NSD to transfer securities and cash at around 7.00pm. This is a DVP model 3.

(2) Off-Exchange Settlements, On-Exchange Negotiated Deals without a CCP and Simple Clearing

Off-exchange settlements include transactions agreed directly between the counterparties and registered in the Moscow Exchange’s system (also known as ‘negotiated mode’) and pure OTC trades. Moscow Exchange’s negotiated mode trades have a T+n settlement cycle and require pre-funding on SD. OTC trades of securities denominated in Roubles do not require pre-funding and can have any settlement cycle. OTC trades can settle on an FOP or DVP basis using three types of DVP settlement: DVP-1 - gross settlement, DVP-2 - cash netting and gross securities settlement and DVP-3 - cash and securities netting.

For DVP settlement, NSD requires that both the buyer and seller send settlement instructions to NSD. NSD will then match both instructions on the same day the trade is input. The deadline for sending DVP settlement instructions is 7.40pm. The reference of the deal agreed by counterparties needs to be included in the instructions to NSD as the unique settlement detail.

For OTC settlements, NSD operates an automated pre-matching facility. The pre-matching facility is “trade-date driven”, i.e. matching of the field “trade date” in the instructions will be obligatory. Transactions will be matched and reported to direct participants by NSD either via SWIFT or NSD’s proprietary system (LUCH).

Matching takes place automatically in NSD’s system using six parameters. Maximum tolerance level of USD 25 or RUB 800 may be applied to trades settled on the DVP basis. For FOP settlements, instructions must be received from the deliverer and receiver in order to be processed.

On SD, once NSD verifies that there are sufficient funds in place in the buyer’s account, NSD will block or keep in reserve the relevant securities in the seller’s account and will transfer cash. Following the successful transfer of funds, NSD will then transfer the securities from the seller’s to the buyer’s account. This process takes between 5 and 10 minutes when securities are held in the trading sub-account.

For off-exchange trades, it is NSD, which effectively controls the DVP process. DVP trades are settled during 8 clearing sessions running at 10.00am, 12.00pm, 1.00pm, 3.00pm, 4.00pm, 6.00pm, 6.45pm and 7.40pm MT for settlement via cash accounts opened with NSD and 5 clearing sessions at 10.00am, 1.00pm, 3.00pm, 6.00pm and 6.45pm MT for cash accounts opened with USD settlement bank. For OTC settlements, there is no standard settlement cycle as it is agreed by the counterparties.

The securities system is open between 8.00am and 8.30pm while the cash system opens between 8.30am and 8.30pm.

Off-exchange trades can also be settled on an FOP basis with funds moving offshore. NSD requires both buyer and seller to send settlement instructions. The deadline for sending instructions to NSD is 5.00pm unless the instruction is an electronic message in which case the deadline is 8.00pm. The life cycle of unsettled or unmatched instructions to NSD varies depending on its type.

Settlements in Foreign Currencies

For foreign currency-denominated securities, NSD provides settlement of transactions on a DVP basis using participants' accounts at NSD or one of the settlement banks. Settlement banks include JP Morgan Chase, Deutsche Bank and Citibank NY. Under the arrangement, NSD is responsible for the securities and cash transfers. Settlements are executed in a range of foreign currencies (USD, EUR, RMB) involving transactions with Russian Eurobonds, ADRs and GDRs. Rouble-denominated Eurobonds also settle through NSD's account at Euroclear and Clearstream.

Futures and options

Currently NSD is accepting the deposit of securities as collateral in the NSD's securities account section "Blocked for clearing. FORTS". The service is available to participants of the FORTS Derivatives market.

Cash

Cash settlement for RUB-, USD, Chinese Yuan (RMB) and EUR-denominated trades takes place via the participants' accounts at NSD, which has a restricted banking licence but does not provide commercial banking services.

NSD maintained 1,824 cash accounts for 960 participants as at 30 June 2014 and 3,223 trading bank accounts.

For pre-funded on-exchange trades, NSD starts blocking cash trading sub-accounts at around 9.00am on the morning of TD. After trading is completed, NCC will calculate the net settlement obligations of participants and will send the net positions report to NSD after 7.00pm, at which time NSD will transfer the funds across accounts.

For off-exchange trades, NSD will receive the settlement instructions from buyer and seller. NSD will verify that there are sufficient funds in the buyer's account. NSD will then block the securities and cash and transfer the relevant amount of assets on a near simultaneous basis.

NSD has a correspondent account at the Central Bank of Russia (Bank of Russia), which operates the two payment systems in the market (Batch gross settlement system and the RTGS payment system). NSD has a brand new automated system of electronic cash settlements (ASECS) which allows to speed up the implementation of new settlement functions according with the needs the market demands now that operates as the single CSD in the Russian Federation. Additionally, CBR assigned the status of payment system operator to NSD, under the registered name "NSD Payment System" on 26 December 2012.

NSD Payment System (NPO CJSC NSD Payment System) is recognised as Nationally Important payment system by CBR.

EUR and USD settlements can also take place through JP Morgan and Citibank NY, which act as settlement bank for foreign currencies whereas Deutsche Bank Trust Company Americas (DBTCA) acts as settlement bank for USD settlements only.

Automatic Transfer of Funds

In January 2015, the NSD also started a new service of automatic transfer from trading subaccounts opened with NSD to cash accounts opened at the NSD, another Russian credit organisation or foreign bank for OTC trades. Automatic transfer can be

performed in Russian Roubles (RUB) and U.S. Dollars (USD).

Asset Commitment Periods

Fully pre-funded on-exchange trades have a long asset commitment period as both securities and cash must be positioned prior to trading and remain unavailable until settlement. These periods can be intra-day if settlement is on a T+0 basis but can be extended to 2 days if the cycle is T+2 (non-liquid equities).

Partial pre-funding on-exchange trades (mainly liquid securities) have a T+2 settlement cycle with NCC as a central counterparty. These trades are fully collateralised according to the risk management procedures applied by NCC but only require positioning of securities and cash prior to settlement which is undertaken in a single end of day batch. The length of time that securities and cash remain blocked is approximately 30 minutes or the time it takes to process settlement.

On-exchange Negotiated Deals trades without a CCP, simple clearing and Off-exchange settlements on a DVP basis experience a short asset commitment period since securities are blocked between the time a payment request is sent to NSD to transfer funds from the buyer's to the seller's account, and payment confirmation, a few minutes later (maximum 10 minutes). Buyers do not suffer any asset commitment period since cash accounts are not blocked under this model. However, the majority of settlement in the OTC model is on a FOP basis, with the potential of a very long asset commitment period depending on the time when securities and cash are transferred. This period is extended if cash settles offshore due to time differences between Russia and the country where funds are transferred.

Irrevocability

Once securities and funds have been debited and credited to their respective accounts these entries are final. There are no circumstances when a securities or cash transfer previously confirmed to a participant as being final can be unwound except for state authority decisions.

Finality

Securities and cash transfer become final upon settlement.

Asset Commitment Risk - Key Indicators

Irrevocable commitment to the processing cycle

	<i>Transaction Type</i>	<i>Start</i>	<i>Finish</i>
<i>Securities</i>	On-exchange	10.00am SD	7.30pm SD
	Off-exchange	8.30am SD	8.30pm SD
<i>Cash</i>	On-exchange	9.30am SD	7.30pm SD
	Off-exchange	8.30am SD	8.30pm SD

Comments (i.e., on pre-funding and irrevocability)

For fully pre-funded trades, Moscow Exchange trading brokers' accounts are blocked at 9.30am on TD, but participants can request a transfer of 'available' securities or cash intra-day. Non-pre funded on-exchange trades are fully collateralised.

Securities processing cycle outlined

For on-exchange trades, debits to securities accounts are made on a net basis during a single batch processing session at the end of the day. Off-exchange DVP settlements occur through one of the three DVP settlements that NSD operates throughout the day on SD. (Negotiated market, Simple clearing trades and repos can also use this gross settlement option for trade values in excess of RUB 10 million).

Cash processing cycle outlined

For on-exchange trades, debits to cash accounts are made on a net basis during a single batch processing session. Off-exchange cash settlements occur on a gross basis throughout the day on SD, up until 8.30pm.

Liquidity Risk

Summary

Liquidity risk for on-exchange is low since both securities and cash settlement are undertaken on a net basis. For liquid securities settled under the partial pre-funding model, NCC, which acts as central counterparty, has some fails management procedures in place such as repos and reverse repos, collateral, guarantee funds, etc.

Liquidity risk for off-exchange trades is reduced by the use of a model 3 settlement (for the vast majority of trades) although this is compromised by the absence of other liquidity improving mechanisms such as fails management procedures.

Processing Model

For on-exchange settlements (anonymous market and negotiated deals) the movement of cash and securities occurs on a net basis through separate systems, but is effected almost simultaneously thereby achieving a model 3 DVP environment. The DVP is controlled by NCC.

Off-exchange settlements are not pre-funded and trade fails may occur in the absence of any fails management by NSD.

In the anonymous market, since there is only one settlement batch at the end of the trading day, the netting efficiency is relatively high in particular for cash.

Under the OTC settlement, the movements of cash and securities may occur on any of the three DVP models (Model 1, model 2 and Model 3), but is effected almost simultaneously thereby achieving a DVP model 1 environment. The DVP is controlled by NSD.

Partial settlements are not possible. In the first half of 2014, over 95% of OTC trades settled on a model 3 basis with net settlement of securities and cash.

Fails Management

Fail Definition and Rate

On-exchange main market trades on T+0 (cash and securities) are 100% prefunded, which means fails are not possible in this segment. T+2 on-exchange trades are partially pre-funded. Once the counterparty fails to meet the obligations the individual and collective (Guarantee Fund) collateral is used. However, on-exchange negotiated trades are not pre-funded. NSD does not have buy-ins or other fails management mechanisms in place to ensure settlement. That said, Moscow Exchange may impose a fine of a maximum 0.05% of the trade value to the defaulting participant in case of default. They will also inform the Financial Markets Service of the Bank of Russia and the market via their website.

The fail rate was 13.1% between 1 January and 30 June 2014.

Fails Management Mechanisms

Off-exchange trade fails are uncommon and when they occur they can generally be attributed to a delay in the transfer of the underlying security rather than the availability of securities. If a trade is not settled on the due SD it may be revoked by counterparties or cancelled by NSD after 30 days period (DVP trades).

Due to absence of contractual settlement date in Russia, NSD does not levy any charges in case of late settlements for OTC transactions.

NCC's rules oblige the defaulting counterparty to pay penalties for each day the obligation remains overdue, as well as penalties compensating the unfavourable price movement. Such penalties do not discharge the defaulting counterparty from the performance of its obligations under the trade including compensation for losses. NCC, in its role as central counterparty, also undertakes an active role in settling the failed trade. It will try to settle the trade by executing a reverse repo or a trying to "borrow" the securities in the market. It also rolls over the unsettled trade to the next settlement date for 45 days when the trade is finally cancelled.

For OTC transactions between two non-residents using USD or another currency, usually the parties outline the liabilities and fines

imposed on the violating party in case of late settlement or other improper fulfilment of the obligations in the Purchase and Sale Agreement. LIBOR overnight rate for USD or EONIA for EUR may be used for fines calculation. The affected party may issue the interest claim to the violating party after the transaction is finally settled or cancelled.

For off-exchange trades on a DVP basis, there are no pre-funding requirements or any fails management procedures in place to ensure settlement. If there are insufficient securities or cash in the participant's accounts, the trade will remain pending. NSD establishes the maximum period of life of DVP trades which is SD + 30 days. Compensation is arranged directly between the parties.

Electronic Matching for OTC Trades:

NSD launched the first stage of the electronic pre-matching mechanism on 17 November 2014 in which transactions will be matched and reported to direct participants by NSD either via SWIFT or NSD's proprietary system (LUCH). The 2nd and 3rd stages involving Hold and Release mechanism and further improvements to the service are planned for December 2014 and 2015 respectively.

The introduction of an electronic pre-matching facility at NSD will centralise and facilitate the matching process in Russia. Since trades will be electronically pre-matched, it should reduce the number of fails in the market.

Automatic Transfer of Funds

In January 2015, the NSD also launched a new service of automatic transfer from trading subaccounts opened with NSD to cash accounts opened at the NSD, another Russian credit organisation or foreign bank for OTC trades. Automatic transfer can be performed in Russian Roubles (RUB) and U.S. Dollars (USD). The automatic transfer of funds will facilitate the payment of OTC transactions in the event the funds are held in trading sub-accounts.

Credit Facilities

Credit facilities are not provided by NSD but are available to participants from commercial banks and in some cases from the Bank of Russia. For credit facilities provided by the Bank of Russia, NSD acts as an intermediary.

Repos from the Bank of Russia (in the government securities market) are possible. Banks can therefore obtain funds for settlement during the trading day and are able to withdraw funds at the end of the net cycles.

For credit facilities, the lender (including the Bank of Russia) may call for margins or haircuts. In this case, NSD will be responsible for calculating and managing the margins and haircuts in accordance with the lender's instruction.

Collateral management for tri-party repos

NSD operates a service related to the Bank of Russia's off-exchange tri-party repo transactions with a basket of securities with collateral management, clearing and settlements. Transactions are conducted for participants who have concluded with the Bank of Russia general agreements on repo transactions in Russia's OTC market using Bloomberg. In respect of repo transactions, NSD is responsible for the selection of collateral and collateral management.

Brokers must be pre-funded by their clients before they can trade. The pre-funding requirement limits trading liquidity rather than settlement liquidity.

Securities Lending

SBL Description

Securities borrowing and lending (SBL) is not supported in the current legislation and thus there is no centralised facility in the market. As a substitute for stock lending facilities, participants execute reverse repo transactions in order to obtain securities to meet settlement obligations. Reverse repos have become more widely used in recent years. However, there is no master agreement or technical link between the two transactions meaning they are treated completely separately. Stock lending is preferable to repos as beneficial entitlements remain with the lender (apart from voting rights).

The Securities Market Law allows brokers to credit their clients with cash and/or securities for purchase and sale transactions

provided that such credits are collateralised by clients.

NSD supports the settlement of repo and reverse repo transactions on Moscow Exchange and accepts the deposit of securities as collateral. SBL arrangements were also introduced by NSD in November 2011 but this facility is not utilised.

Short Selling

Short selling is prohibited in accordance with the Financial Markets Service of the Bank of Russia.

Registration Model

NSD is the official depository for state federal bonds and Bank of Russia bonds and 99% of corporate bonds can be transferred or pledged at NSD by book entry along with over 90% of sub-federal and municipal bonds for which NSD acts as an authorised depository, i.e. provides mandatory centralised safekeeping. These are reregistered at NSD immediately upon settlement. CSD eligible equities are registered in the nominee name of NSD with the respective registrars.

In the current model, securities are not blocked during the registration process but the transfer of ownership at the registrar can take up to 3 days.

As at October 2014, NSD had nominee accounts with 38 Registries. NSD had EDI links established with all registrars, reducing the re-registration time to between one and two business days. The average re-registration time in 2014 was 1 day 21 hours 59 minutes. Between January and June 2014, 100% of re-registrations were effected using EDI.

Non-resident holders are allowed to open the following accounts with NSD:

- 1) account in the name of the beneficial owner to open and use a securities account, clients other than professional securities market participants should transfer their powers to manage the account to a fiduciary, i.e. an organisation with a depository license;
- 2) account in the name of the foreign nominee holder.

After receiving CSD status, NSD is allowed to open the accounts of beneficial owners and the accounts of foreign nominee holders. Moreover, NSD can open the accounts of foreign nominee holder only in the name of ICSDs and CSDs included into the list issued by regulator.

Euroclear Bank started on 7 February 2013 to provide post-trade services for Russian OFZs Russian government bonds via Euroclear Bank's account with NSD after receiving all the regulatory and operational clarifications. OFZs held in safekeeping by Euroclear Bank are also eligible as securities collateral for securitised transactions where Euroclear Bank is the triparty collateral management agent.

Changes on Registering Transactions in the CSD's Nominee Account at the Registrar were introduced and the registration of transaction on securities is allowed only in case of no change of beneficial ownership (NCBO) for all types of transactions except for:

- Transactions in connection with the sale, purchase or buy-back by an issuer of its outstanding securities;
- Transactions in connection with the of a tender offer initiated by a holder of more than 30% of a company's shares according to the article XI.1 of the Joint Stock Companies Law.

Also, since 1 September 2012, it is not necessary to submit matching transfer orders to a registrar to settle the following types of transactions:

- Withdrawals from the CSD nominee account with a registrar pursuant to execution of a mandatory tender offer initiated by a holder of more than 95 per cent of company's shares
- Withdrawals from the CSD nominee account with a registrar caused by the cancellation of an investor's custody agreement with the CSD or a depository.

The trend in Russia has been to consolidate the smaller regional registrars into the larger Moscow-based registrars. This trend in consolidation is likely to continue to create synergies and meet the regulatory requirements given: (i) the capital requirements for registrar is RUB 100 million; and (ii) the regulator has imposed rules for registrars, which include strict requirements for data back-up and recovery. Starting from 1 October 2013 all joint stock companies will have to use professional registrars for the

shareholders` registers. There have one year transition period till 1 October 2014. These rules should further encourage electronic automation and improve the general registration process.

Deposited securities

All securities in NSD are held in dematerialised form. All Federal Bonds and Bank of Russia bonds are held within NSD as it is the official depository for these instruments. Participants and their client investors (beneficial owners and trustees) must open segregated accounts and relevant sub-accounts for these securities.

The transfer of CSD eligible securities issued by 1,200 public companies to the National Settlement Depository (NSD) was completed in accordance with the Federal Law “On Central Securities Depository”. As a result of the re-qualification of CSD nominee accounts in registers on 26-29 March 2013, 1,090 issuers’ accounts were re-qualified. Re-qualification of NSD nominee account in Gazprom registrar SR DRAGa was executed on 2 September 2013. Gazprom shares represented in its Depository Receipt program at Gazprombank (GPB) were transferred to the CSD’s nominee account.

Since the opening of the account in the register, the issuers’ interactions with registers in respect of CSD nominee accounts is held in compliance with the requirements of the Federal Law “On Central Securities Depository.”

Settlement Depository Centre (SDC) still provides depository services for transactions on Gazprom shares at the St. Petersburg Stock Exchange.

Currently, assets worth RUB 17.3 trillion are kept in NSD accounts.

Deposit and Withdrawal of securities

Liquidity risk is impacted by the blocking of shares during the lodging of a buy-back by an issuer, custodians and registrars. The rules state that if the issuer fails to buy-back the shares from the shareholder, the custodian and registrar are permitted to unblock the shares upon expiration of 75 calendar days from the respective AGM/EGM date.

Fixed income securities cannot be withdrawn from NSD as the issuer document specifies NSD as a centralised place for safekeeping.

Equities are safekept at the registrars in dematerialised form. NSD holds nominee accounts with most registrars to facilitate the re-registration of equities.

Liquidity Risk - Key Indicators

Settlement Models

Model 3 - Near simultaneous transfer of net securities and funds (on-exchange settlements, DVP OTC settlements)

Model 1 - Near simultaneous transfer of gross securities and funds (off-exchange settlements, negotiated market trades, and repos)

Model 2 – Near simultaneous gross transfer of securities and net transfer of cash (optional OTC DVP trades)

Processing Periods

Overnight (by batch)

No

End of day

Yes

Batch daylight processing

Yes

Real-time and on-line

Yes

Other

No

Credit Facilities

Central bank money used to settle cash elements of trades

No

Credit facilities provided by the CSD

No

Credit facilities provided by commercial banks

Yes

Comments

NSD holds a settlement account with CBR and clears settlement with the clearing banks in CBR funds.

Stock Lending

Is stock lending permitted in the market

Yes

Are stock lending facilities provided by the CSD?

No

Are stock lending facilities provided by commercial banks/brokers?

Yes

Comments

Some unofficial lending takes place between brokers in the market.

Transfer of Securities

Are securities deliveries achieved by book-entry?

Yes

Registration of Securities

Period of time required to register a holding?

GKO and OFZ bonds - Immediately

Various periods for equities. According to legislation, re-registration should be within 3 days, rejections within 5 days. Market experience shows it takes up to 10 days depending on the location of the registrar. For issues whose registrar is on for re-registrations via EDI, the transfer period has generally been reduced to one business day. According to NSD, transfers submitted by 1.00pm using EDI are normally completed within the same business day.

Comments

Re-registration is immediate when NSD acts as the official depository for the securities and if the re-registration is done on the books of NSD for equities. External re-registration with registrar can take from 1 (urgent re-registration at higher registrar fees) to 3 days.

Counterparty Risk

Summary

Counterparty risk between participants is reduced by the pre-funding requirements before trading for pre-funded on-exchange transactions and the integrated DVP arrangements. For other on-exchange trades, NCC acts as central counterparty and therefore has default management mechanisms in place.

For off-exchange settlements, there is full counterparty exposure if the participant chooses to settle on an FOP basis (the majority in OTC trades). If settled DVP, there is no risk of principal loss, but some consequential market losses may occur since there are no fails management mechanisms. Both bank and non-bank participants must meet minimum capital requirements and must report regularly to their regulator – Central Bank of Russia. Participants have a counterparty risk exposure to NSD, which manages the cash and securities accounts.

Participant Counterparty Risk

NSD does not act as central counterparty and does not itself guarantee settlement of trades. However, participants are exposed to NSD since it manages the securities and cash accounts.

Participants in the off-exchange regime are exposed to the potential for consequential losses due to the trades being cancelled in the event of insufficient securities and cash since there are no fails management procedures in place such as buy-ins or stock lending. They are also exposed to NSD when holding securities and cash accounts.

However, with Moscow Exchange, the risk is managed by restrictions on NSD's activities as a non-bank credit organisation - it is a unique purpose company that does not provide credit or other commercial activities. Its accounts are with the Bank of Russia, the central bank, which mitigates the exposure to NSD.

Risk Containment Model

For pre-funded trades on the Main market sector and negotiated deals, counterparty risk is mitigated by the pre-funding requirement before trading takes place and the use of an effective DVP mechanism, although it is controlled by NCC instead of NSD.

For liquid securities traded on-exchange, NCC manages market risk exposure by requiring margins in RUB cash from clearing members. Before trade execution, there is margin check between MICEX SE and NCC, and only if sufficient margin is available the trade can take place.

Counterparty risk exposure for off-exchange trading activity is minimised by the use of an optional DVP mechanism operated by NSD although this is rarely utilised. This gives exposure to full principal risk. In addition, there are no pre-funding requirements or any fails mechanisms to ensure that settlement takes place, which may create the potential for consequential losses for participants. In addition, the large majority of OTC trades settle on a non-DVP basis increasing the counterparty risk exposure for participants that select this settlement modality.

Delivery Versus Payment

For on-exchange trades, NCC controls the DVP process by instructing NSD to transfer the relevant securities and cash. The DVP process takes place on a simultaneous basis between 7.00pm and 7.30pm on SD.

NSD controls the DVP process for off-exchange settlements by executing the cash transfer upon confirmation of sufficient securities. It also blocks the participants' securities accounts until execution of cash settlement. The DVP process is on a simultaneous basis.

NSD also integrated its infrastructure to allow participants to provide a single settlement instruction for the transfer of securities and cash.

Settlement occurs in 8 clearing batches for trades using NSD cash accounts – 10.00am, 12.00pm, 1.00pm, 3.00pm, 4.00pm, 5.00pm, 6.45pm, and 7.40pm. For settlement using accounts at Foreign Settlement Banks (Citibank, New York; J.P. Morgan & Co.,

New York; and Deutsche Bank), there are 5 clearing batches running at 10.00am, 1.00pm, 3.00pm, 5.00pm and 6.45pm.

Role of Central Counterparty (CCP)

The National Clearing Centre (NCC) is the central counterparty for Moscow Exchange transactions.

NCC was licensed by the Federal Financial Markets Service (former Russian regulator) to clear Moscow Exchange stock market transactions and act as central counterparty for buy, sell and repo transactions. Its authorised capital is RUB 6,170 (1 December 2011) million (its capital at December 2013 stands at RUB 27 billion (USD 820 million) and Moscow Exchange owns a 100% stake in NCC. Also, NCC has the status of qualifying central counterparty (QCCP) issued by the CBR.

The Law on Clearing and Clearing Activities introduces the definition of clearing and clearing obligations, the concept of CCP and its responsibilities, and describes the rules for clearing including the disclosure of information for clearing organisations. The law also includes a description of the clearing process, risk management and the legal regulation of clearing activities.

NCC sets on a daily basis for each instrument traded on the T+2 market a security risk rate which is used for investors on margin trading. Margin trading can be conducted by an investor only with securities determined by the broker provided that such securities are subject to clearing with participation of the Central Counterparty (CCP). Otherwise, if the securities are not admitted for CCP clearing, must have their securities' risk rates publicly disclosed by a clearing organisation on its Internet site.

Novation takes place in real-time.

Participant Criteria

Eligible participants of NSD include the stock exchanges, the Central Bank of the Russian Federation (Bank of Russia), commercial banks and brokers/dealers, custodians, insurance companies, and other institutions professionally engaged in securities markets. Only ICSDs included in the list issued by Financial Markets Service of the Bank of Russia are eligible to open foreign nominee accounts in CSD whilst other foreign participants can open beneficial owner accounts for their proprietary securities, although the large majority open beneficial owner accounts with licensed Russian participants. At the end of June 2014, there were 3,677 depository accounts open in NSD, for 1,666 participants.

NSD does not impose any participation criteria except for the requirement for participants to be licensed by the Financial Markets Service of the Bank of Russia to open nominee accounts, or if banks, additionally by the Bank of Russia. The minimum capital requirement for new entities to be licensed as a bank by the Bank of Russia is EUR 5 million (approximately USD 6.8 million) which became effective from 1 January 2007. This appears to be quite low.

Financial Markets Service of the Bank of Russia set the following capital requirements for professional securities market participants:

- 1) for brokers and dealers — RUB 3 million (USD 0.087 million) (who do not lend their clients and do not make use of clients' fund); and RUB 35 million for those who invest clients' funds.
- 2) for settlement depositories — RUB 250 million (USD 7.95 million);
- 3) for custodians — RUB 60 million (USD 1.9 million);
- 4) for specialised depositories — RUB 80 million (USD 2.54 million);
- 5) for stock exchanges — RUB 150 million (USD 4.77 million);
- 6) for registrars — RUB 100 million (USD 3.18 million);
- 7) for banks EUR 5 million;
- 8) FX dealers RUB 100 million and larger for companies that have more than RUB 150 million of client funds under their custody.

Membership in a Self-Regulatory Organisation (SRO)

- 1) Prime - Brokers - RUB 15 million (USD 0.43 million)
- 2) Asset Managers - RUB 5 million (USD 0.145 million)
- 3) for custodians — RUB 15 million (USD 0.43 million)

However, Bank of Russia has proposed to increase the Capital Requirements for banks from the current RUB 90 million

(approximately USD 3 million) to RUB 180 million (approximately USD 6 million) and RUB 300 million (approximately USD 10 million) by 2012 and 2015, respectively, but this is yet to be approved.

The relationship between NSD and its participants is governed by relevant law and regulations, a standard depository agreement (different for different types of securities account), established terms and conditions of participation and the depository's rules. All participants are subject to the same rules and procedures. NSD has also approved Rules for internal control of the professional securities market participants and NSD's Rules for internal control of the clearing organisation.

According to NSD's depository agreement, NSD has the right to suspend operations on the account. The account can be closed once the balance has been reduced to zero.

If a participant fails to meet its financial obligations, NSD may impose a fine, or suspend their operations if the payment is a month or more overdue.

NSD is also subject to the mandatory ratio requirements which are stipulated for Settlement Non-Bank Credit Institutions:

- The current liquidity ratio is set at no less than 0.5 for banks, while it shall be no less than 1.0 for Settlement Non-Bank Credit Institutions;
- The requirements as to the use of the equity capital by Settlement Non-Bank Credit Institutions for the purchase of shares (stakes) of other legal entities limits the aggregate risk of the investment of Settlement Non-Bank Credit Institutions into shares of other legal entities. The ratio is set at 0% of the equity capital of a Settlement Non-Bank Credit Institution. The same ratio for banks can be up to 0.25;
- The capital adequacy ratio is directly proportional to the company's equity capital and is set at 0.12 for Settlement Non-Bank Credit Institutions and at 0.1 for banks (0.11 if the equity capital exceeds RUB 180 million).

Settlement Non-Bank Credit Institutions must comply with the mandatory ratios set by this instruction on a daily basis and also provide the Bank of Russia with their reports on a regular basis.

Participant Concentration

Market is quite highly concentrated by value with the top participant (excluding CBR) accounting for 66% of market activity and the top 10% of participants accounting for 80% of market activity.

Financial Compliance/Surveillance

While NSD does not monitor and manage the risk of a participant failing, it does actively monitor participant actions to ensure that they are in accordance with its rules and procedures. No enforcement action has been taken by NSD against a participant in the past three years. Banks and brokers are supervised by the Bank of Russia.

The Bank of Russia monitors non-bank minimum capital requirements through a quarterly reporting regime. Moscow Exchange also monitors participants' compliance with its regulations and rules through quarterly returns that include financial and trading information. The regulator also outsource the audit process to PARTAD and NAUFOR (a self-regulatory organisation), which executes preliminary audits on behalf of the Financial Markets Service of the Bank of Russia for the Institutions professionally engaged in securities market including registrars and depositories. The results of the audit are confidential and are sent to the regulator. However, if they are not satisfactory or some concerns are raised, they would publish this on their website. They can only carry out about three audits a year.

For on-exchange trades (anonymous market), NCC monitors that brokers always have sufficient collateral in place to be able to execute the trade or cash and securities if the trade is pre-funded.

Guarantee Funds

NCC manages a number of guarantee funds according to the market (made up of contributions by clearing members):

- Securities Market: RUB 1.9 billion (USD 40 million)
- On-exchange derivatives market: RUB 1.2 billion (USD 25 million)
- OTC derivatives market: RUB 78 million (USD 1.6 million)

For on-exchange trades guaranteed by NCC, the funds and capital of NCC will be used in the following order in case of default of a participant:

- Defaulter's collateral;
- Reserve Fund in full;
- Contributions of other clearing participants to the Contingency Fund;
- Equity capital of NCC.

Counterparty Risk - Key indicators

Capacity of CSD

Agent

Surveillance of Participants by CSD

No

Settlement Assurance

Yes - by NCC as central counterparty for some on-exchange trades

Participation Criteria

Yes - regulatory standards

Minimum Capital (local currency)

- 1) for brokers and dealers – RUB 3 million (USD 0.087 million) (who do not lend their clients and do not make use of clients' fund); and RUB 35 million for those who invest clients' funds;
- 2) for settlement depositories – RUB 250 million (USD 7.95 million);
- 3) for custodians – RUB 60 million (USD 1.9 million);
- 4) for specialised depositories – RUB 80 million (USD 2.54 million);
- 5) for stock exchanges – RUB 150 million (USD 4.77 million);
- 6) for registrars – RUB 100 million (USD 3.18 million)
- 7) for banks EUR 5 million.

Membership in a Self-Regulatory Organisation (SRO)

- 1) Prime - Brokers - RUB 15 million (USD 0.43 million)
- 2) Asset Managers - RUB 5 million (USD 0.145 million)
- 3) for custodians – RUB 15 million (USD 0.43 million)

Size of Guarantee Fund - (Name, local currency, Euro and USD - (millions))

RUB 2 billion (October 2014). For securities market only

Does the CSD act as a Central Counterparty?

No

Participant Concentration (Local Currency Millions)

Value of transactions in the market by top 10% of participants

66%

Volume of transactions by top 10% of participants

80%

Volume of largest individual participant

38%

Asset Safety Risk

Asset Safety Risk Summary

The nominee concept is recognised in Russia and participants can open accounts on an omnibus or beneficial owner basis. The vast majority of securities are dematerialised with equities mostly in registered form while bonds are held in bearer form. There are no liens on securities accounts except in the event of unpaid fees by a participant. Investors' cash deposits have to be segregated from cash deposits of their broker, custodian bank and NSD.

Segregation of Securities

There are several types of accounts used to hold participants' assets in NSD - Proprietary, Nominee, Foreign Nominee and Trustee. Each account can support the use of multiple sub-accounts. However, transactions and corporate actions can not be managed at the sub-account level. Each sub-account has to be used according to the regime specified under the Standard Depository Account Agreement concluded by and between NSD and its participants.

The account structure is the same for both local and foreign incorporated participants although some accounts can only be opened for professional market participants (e.g. beneficial owner accounts).

NSD's participants are required to segregate assets held for their own benefit from those they hold for their clients (Article of the Securities Market Law; Sections 4.4 and 4.5 of the Depository Regulation).

According to the NSD Standard Depository Account Agreement, securities specified by the participant as collateral do not have to be held in a separate account, but separated in a sub-account "Blocked as a Collateral" opened in the same participant's account. This sub-account's regime is specified in the Standard Depository Account Agreement.

Legal Conventions

The nominee concept is recognised under Russian law for local and foreign holdings. (Currently NSD do not offer nominee accounts to foreign investors, only to ICSDs).

Under the CSD law, NSD has clear legal ownership of securities in Russia and the beneficial ownership of participants is recognised. However, it is understood that legal ownership is held at the entity that holds securities (i.e. if securities are held at the depository then that depository guarantees the rights of clients to the securities).

According to Federal Law No. 127-FZ of 26 October 2002 - On Bankruptcy (Insolvency), assets in the account of an insolvent party must be frozen until resolution of insolvency proceedings. In case of insolvency of the depository, assets identified as belonging to clients are isolated. In case of insolvency of the custodian, assets identified as belonging to clients are isolated and on instruction from the client, can be transferred to an alternative custodian within 3 days.

If a client of a defaulting custodian has a pre-positioned agreement with an alternative custodian then the securities could be reasonably expected to be transferred the same day.

Forms of Securities

NSD is now recognised as the central place for safekeeping for traded securities and securities held at registrars following the adoption of the CSD Law.

Securities in Russia are mostly dematerialised. At December 2013, over 99% of equities and fixed income instruments at NSD were held in dematerialised form and the remaining in certificated form. 99.66% of equities held at NSD are held in registered form. Russian bonds are in bearer form.

Reconciliation and Audit

NSD reconciles balances with registrars and other depositories and resolves differences on a timely basis. The depository

department reconciles with the registrars against the NSD account balance on a transaction-by-transaction basis. (Reconciliation is conducted every time a statement or note is received which is daily for actively traded securities.)

In addition, the depository department also regularly reconciles total balances of depo accounts in the depository accounting system of NSD with NSD's account balance reported by the place of custody.

Participants can reconcile their balances with NSD daily on a fully automated basis.

Any breaks in the reconciliation process have to be resolved by the next business day. Any significant or prolonged breaks are resolved through an arbitration or a court.

The book entry positions are audited by NSD Operations division internal controllers on-line on a daily basis.

At least once a year, the Internal Control Department audits the daily activity of NSD Operation Division according to the Annual Audit Plan.

Lien

Russian law protects customers' assets from claims and liabilities of the depository. According to Article 7 of the Securities Market Law; Section 4.13 of the Depository Regulation, settlement depositories cannot apply a lien on participants' accounts.

The depository has no lien on any cash held in or transferred through it or other parties. NSD is entitled to withhold from participant' accounts cash in the amount equal to the participant's debt to NSD for services provided by NSD under the relevant agreement concluded by and between NSD and the participant. NSD must provide prior notice that it intends to with-hold cash and provide confirmation when cash is with-held.

Account Control

NSD has controls and procedures related to access to securities accounts. These are audited periodically mainly by the Internal Control department.

There were no exceptions raised by the auditors in relation to the controls and procedures around account access. According to the current legislation, participants can trigger the debit/ credit of accounts in NSD. In certain cases, specified under the current legislation or by agreements concluded by and between the participant and NSD, NSD can trigger the debit/ credit of the participant accounts.

Cash Deposit

The clients' cash deposits have to be segregated from cash deposits of their broker, custodian bank and NSD. Cash accounts must be segregated for clients' funds and participants' proprietary funds. There is no segregation of cash at the sub-account level.

NSD does not have a counterparty rating from any of the main credit rating agencies.

Asset Safety Risk - Key indicators

Asset Safety - Key Indicators

Segregation by Law / Regulation:	Yes
Nominee concept recognised:	Yes
Frequency of reconciliation with participants:	Daily
Liens asserted by CSD:	On cash for unpaid fees only
CSD holds cash deposits:	Yes

Asset Servicing Risk

Summary

For equities, issuers are legally required to notify registrars and registrars are legally obliged to notify shareholders, including nominee holders (e.g. NSD) of all corporate action information. NSD's liability reaches beyond gross negligence under local regulations although some services considered as value added (e.g. provision of corporate actions information, proxy voting, etc) have limited liability. NSD is the active recipient of information from issuers and registrars and in accordance with the requirements of Russian civil law, it takes limited responsibility for the accurate and timely dissemination of the information to participants once received from the source. NSD has an agreement with Interfax for the collection of corporate actions information. It is mandatory for participants to pass instructions via NSD for corporate events of securities held at NSD and in turn NSD is liable for direct losses that arise from its role as an intermediary. NSD is in the process of building an Automated Corporate Actions Information Systems which would increase the STP rate.

Information processing

a. Information Collection

There is no central source of corporate actions information in the market. The Central Source of Corporate information is currently under development on the basis of the CSD. NSD corporate action information is secured through from the following sources:

- Domestic bonds: For bonds with centralised safekeeping at NSD, NSD is the effective register and source of information in the market and issuers are contractually required to inform NSD of all corporate events.
- Foreign Securities: NSD receives official information for foreign securities from global custodians.
- For all other securities, NSD either: (i) receives information from (i) Interfax, one of the 5 news agencies approved by the regulator for the disclosure of corporate information, or (ii) direct from Registrars which are required by law to provide Information to NSD via EDI. (EDI does use some standard message formats for corporate actions but to date there have been no electronic interfaces built into the system.); or (iii) seek information from issuers directly if they do not have an appointed registrar. Around 90% of information is received from Interfax and confirmed by the registries.

Information received from registries is assumed correct. Other issuers have a legal obligation to notify NSD if NSD is the central place for safekeeping. Also, issuers must also publicly announce information through external public information agencies such as company news and websites of issuers.

Under the new CSD law, NSD only holds securities where the issuer has appointed a registry to act as registrar.

NSD collects and provides all corporate action information on an active basis and all data on fixed corporate actions which is contained in offering circulars. Other sources of information are information agencies, Central Bank of Russia and websites of issuers. NSD has an agreement on the provision of information services with the company Interfax under which, NSD will receive from it information about material facts disclosed by securities issuers. NSD releases this information on its website as received from Interfax. Once the information is received from the issuer or registrar, it is then input in NSD's system for processing.

Information received from local registrars and bond issuers via NSD's proprietary system of Electronic Document Interchange (EDI), known as LUCH, paper documents, email and fax. The percentage of corporate action information received via paper, email, etc. is less than 1%. No information is received via SWIFT. Information received via EDI is manually input into NSD's system and then re-entered by the operations department for the system to electronically cross check and confirm the information before it is sent out to participants.

For shares and bonds, issuers are required to inform five data vendors regarding important information, Interfax and AK&M, AZIPI-Inform, Prime-TASS, Skrin, which then make it publicly available for free. This information is also published on FFMS and websites of issuers. From 2013, issuers are required by law to disseminate AGM information through NSD. Issuers can send the agenda to NSD via registrars in an electronic form.

b. Information Dissemination

NSD notifies participants about corporate actions relevant to them on the day of receipt (DOR). Occurrences of late notification are monitored. Information is checked by a manager prior to being released.

Income notifications for coupons and cash dividends are sent via SWIFT ISO 15022. The development of SWIFT notifications is on-going and is expected to be completed in 2015.

NSD also provides reports on shareholders' meetings. Information is received from issuers and then disseminated via LUCH.

Information is publicly disclosed via NSD's website simultaneously in a standard format. Information is also sent to participants via EDI or email at the end of the day (one daily batch) for those events related to the participants' holdings at NSD, although participants can adjust their settings to receive additional information. Urgent notifications are sent in real-time. 70% - 80% of the information is in English.

NSD accepts responsibility for losses resulting from missed, inaccurate or incomplete corporate actions information delivered to participants in accordance with Russian civil law provided it has been received correctly and on time from the issuer or the registrar. NSD's insurance covers this liability. Liability is limited to direct losses and is defined by regulation and in the participant's terms and conditions. There have been no claims over the last three years.

For equities, some participants also check the information sent by NSD with the issuer or other sources before passing it onto their clients.

NSD manages the Depository Information Service Centre (DISC), which includes the calendars of detailed information on corporate actions and events to be conducted by issuers. A new version of the system is currently under development and will include information messages linked to financial instruments, issuers, corporate actions and other documents; scanned versions of issuer documents linked to financial instruments, documents in relation to corporate actions, including shareholders meetings; and users' personal accounts with personal settings and subscriptions.

NSD provides through its Corporate Information Centre (CIC) information on issuers, securities and corporate actions covered by NSD. The current services available:

- GMs&Dividends – information about annual and extraordinary general meetings of shareholders and dividend payment;
- GMs&Dividends (Holding) – information about general meetings of shareholders and about dividend payment in respect of the client's securities portfolio held by NSD;
- SIR Offers – information about on Russian issuers' bond offers;
- SIR Defaults – information on Russian issuers' bond defaults.

Instruction processing

a. Receipt of Instructions

All corporate instructions must be routed through NSD; and NSD accepts full responsibility for any losses that arise as a result of any corporate action deadlines that are missed, where the issuer/participant has notified NSD within the agreed deadline.

NSD is obliged to provide each registry with beneficial owners lists and addresses as required ahead of any action as at a particular date. For those registries linked to EDI, this process is automated and efficient. Also adding to the integrity of this process, participants are able to maintain their core contact details online.

Mandatory instructions are processed by NSD based on official documents received from the issuer, registrar or paying agent. Corporate event information that sets up the processing of corporate events is dual processed and enters into the system which electronically matches the instructions prior to acceptance. NSD maintains a calendar of upcoming events in their system and will send a reminder to participants.

More than 60% of voluntary events instructions are received in electronic form via EDI from participants in a standard template format which are electronically interfaced and automatically loaded into the system. Participants are able to send instructions for foreign held securities using SWIFT. There are basic integrity checks on information received. About 10% of instructions are

received via email, and the remaining 30% in paper form.

Clients receive confirmation that an instruction has been received. NSD monitors positions for pending instructions, but there is no automatic message to alert participants that their instructions are missing. Participants can see if their instructions are incorrect or incomplete, and NSD checks those instructions in respect of eligible positions. Participants cannot amend their instructions, but they can cancel the original instruction and input a new instruction within the deadline.

With the project to adopt SWIFT messages, NSD plans to roll out the use of SWIFT from notifications to instructions in 2015, which will enhance automation and operational efficiency.

b. Execution of Corporate Actions

The central paying agent for government bonds is Bank of Russia.

NSD acts as central paying agent for CBR bonds, most municipal and sub-federal bonds except Moscow bonds and most corporate bonds with centralised safekeeping at NSD. Interest is usually paid on PD or in the evening of PD-1. Entitlements are calculated on Record Date (RD) based on settled positions. RD for bonds is usually Pay Date (PD) minus 6 or 7 days according to the issuer's prospectus. After RD for bonds, participants have 2 days to amend their bank details. Paying agents usually receive interest income for bonds, one or two days prior to PD. If NSD acts as a paying agent, income is credited to NSD's special account and then credited to the participants' accounts (or accounts of their clients) on PD via bank transfer to the participants' account.

For the other fixed interest securities, income received at NSD's account is transferred in accordance with participants' additional instructions.

NSD has started to act as central paying agent for dividends. There is no specific payment date for equities in Russia, but rather a payment period when issuers distribute dividend payments which have been shortened from 60 days to 10 days. The process of dividend payments has been improved. After the record date, the issuer has ten business days at maximum to transfer the dividends to NSD. NSD then distributes the funds on the same day or the next day.

NSD supports varied instructions for a single position but it does not process claims automatically based upon standing instructions. NSD confirms to the participant that its instructions have been executed on the same day. NSD provides full accounting support for the outcome of all corporate actions and it provides value on due date, cash contributions are made in same day funds.

NSD sends confirmations regarding payment distributions to every participant on PD if payment takes place at NSD. If participants have nominated an external account for payment they must rely on the external paying agent for confirmation, and to effect the transfer of funds into NSD for trading.

In case of any problems with the income distribution, NSD will take responsibility for any losses arising to participants in accordance with Russian civil law. They will pay interest to the outstanding amount and if the fault is by an external party, NSD is liable to their participants but will pass this to the third party.

NSD operates a real-time currency conversion service for corporate actions.

Proxy Voting

NSD offers a proxy voting service, although it is not used by participants or investors. For foreign securities, shareholders typically only participate if there are financial issues that bring economic benefits discussed at the meeting.

NSD provides all announcements of meetings received from the issuer/registrar (which it could attend through its representative) on the request of participants and given it has a Power of Attorney. Furthermore, NSD will request additional information or documents from the issuer or authorised party on the participant's request. Also, on the basis of the Power of Attorney, NSD is able to process contingent voting instructions and will confirm that votes have been cast in accordance with participants' instructions.

Positions do not have to be re-registered to qualify for voting and positions are not frozen around voting dates.

Proxy voting is based on bilateral agreement via proxy forms and physical instructions via mail, which is very costly. NSD takes some liability which is limited as specified in the contracts with its clients. There is a plan to introduce an electronic voting system as an alternative. NSD will act as the entity to consolidate votes and information and pass it on to the issuers.

The Federal Law 218-FZ dated 21 July 2014 "On Making changes to Separate Legislative Acts of the Russian Federation" came into force on 2 August 2014. In line with the requirements of the law, the National Settlement Depository (NSD) has announced certain changes in the proxy voting procedure as follows;

- Nominee holders, FNHs and foreign organisations are now allowed to participate and vote in general meetings without a Power of Attorney on the basis of instructions received from their clients;
- Nominee holders and FNHs can submit electronically to the registrar the voting instructions received from their clients – securities owners;
- FNHs are released from the obligation to provide information required to form the list of securities owners according to the standard procedure, if they provide information prescribed in part 5 article 8.8 of the Federal Law "On the Securities Market";
- CSD is given the right to establish the rules of the interchange including electronic messages formats for proxy-voting on securities safe-kept with nominee holders. So these rules should be applied by registrars and NSD participants.

E-Proxy Voting

NSD has initiated to reform the current practices on corporate actions by implementing new technologies and international standards.

NSD in cooperation with securities market participants has already introduced both E-Proxy-Voting and shareholder meeting notifications using the messages in the formats developed by the CSD. NSD is expecting to complete the implementation of the new developments by implementing ISO 20022 and ISO 15022 messages for shareholders' meeting notifications by the end of 2014 and automated E-Proxy-Voting procedure by the end of 2015.

Other services

Effective from January 1 2014 under the Russian Tax Code, NSD acts as withholding agent when paying out income on securities. 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.

Pursuant to the amendments made to the Russian Tax Code following taxation procedures become effective as of 1 January 2014.

Russian custodians are taking over tax agent function and responsibility from issuers on dividends taxation and coupon taxation for the corporate bonds issued after January 1, 2012 (government, subfederal and municipal bonds are not taxable).

For proprietary accounts of foreign investors Certificates of Tax Residence (CoR) still should be submitted to a custodian at the beginning of each fiscal year but they will not be forwarded to issuers any more and the final decision about taxation will be on a custodian. Please note that for the proprietary accounts of foreign banks there is no need to present CoR any more as the custodian is allowed to confirm the residence of such clients in public sources (Banking Almanac, etc).

Foreign Nominee Holders (FNH) and Foreign Authorised Holders (FAH) should disclose to a Russian custodian, for each dividend payment and coupon payment for the bonds issued after 2012, aggregated information about their clients. The information should contain the following information for institutional and private clients: country of tax residence and the basis of applying the reduced rate, if applicable. We will provide our FNH and FAH clients with the disclosure template in due course. Collective investment schemes (mutual/hedge funds), including being under FAH umbrella, should not disclose final investors in a fund and a country of registration of a fund should be considered for taxation purposes. No need to disclose clients for non-taxable bonds.

Disclosure time frames for FNH & FAH:

5 calendar days from the date of coupon payment announcement;

7 calendar days from the record date for dividends;

Within 25 calendar days FNHs and FAHs are allowed to modify the information submitted and a Russian custodian should take these updates into consideration and make respective payment adjustments.

For non-disclosed positions increased tax rate of 30% will be applied both for coupons and dividends.

In case a DTT has two tax rates (standard reduced rate and a lower rate if investor holds certain stake or/and invested above certain amount) a Russian custodian is allowed to apply only standard rate for the position kept on FNH/FAH accounts and the difference between these rates could be reclaimed from the budget.

For the corporate bonds issued before January 1, 2012 issuers remain to be tax agents thus FNHs and FAHs should present to a custodian (for further submission to issuers) CoRs for each underlying client eligible for reduced tax rate. For non-disclosed positions 30% rate will be applied.

For the positions kept by foreign investors directly on proprietary accounts with registrars tax agent function will remain on issuers.

Russian Tax Authorities have the right to request from FNH or FAH detailed information about final clients including CoRs, statements of holdings, etc. Request can be routed via Russian custodian or via Tax Authority of a country of FNH or FAH.

Asset Servicing Risk - Key indicators

Information processing

Securities covered

All domestic and foreign eligible securities

Information sources used

Interfax, Registrar, Federal Financial Markets Service, MOF, Central Bank, Moscow Exchange, Data Vendors.

Information provided in English

Yes

Number of Events during last full year

Dividends

904 (2013)

Interest & Redemptions

2,066 (2013)

Corporate actions

894 + 8466 collection of list of owners, including 2821 unrelated to corporate actions (2013)

Notification via

SWIFT message, proprietary electronic, internet/e-mail and mail.

SWIFT message types

Yes

Notification within

Same day

Instruction processing

Use of depository

Mandatory for some fixed income securities and shares

Settlement on due date

Yes

Optional corporate actions supported

Yes

Cash account credited

Yes

Central paying agent

Yes

Entitlements based on

Settled Positions as of Record Date

Instruction processing comments

Central paying agent for dividends, as well as certain municipal, subfederal and corporate bonds with mandatory centralised safekeeping at NSD.

Proxy voting services

On-line

Planned

Outsourced

No

Announcement of meetings

Yes

Elections (Voting)

Yes

Results reporting

Yes

Proxy voting services comments

Yes, but this service is not commonly used.

Financial Risk

Summary

NSD had a shareholders' equity RUB 9.048 billion (USD 275 million) as at 31 December 2013. It seems to be comparatively well capitalised compared to other CSDs in respect of securities under custody and its capital appears adequate for a depository that also holds cash accounts on behalf of participants. It also holds a significant amount of liquid assets (from proprietary funds and monies held on behalf of participants for settlement purposes) and insurance coverage for USD 65 million. Revenues are relatively stable since more than half of operating income is from safekeeping fees. However, a significant proportion of revenues (48.1% during January to September 2014) come from investments, which can be more volatile and any changes have the ability to impact on NSD's profitability.

NSD must also take a high level of liability under Russian civil law and has some financial commitments including investments to develop full STP for corporate actions and becoming a central source of information in the market, but these have already been budgeted.

Financial and other Resources

Capital Structure

The old NDC was reorganised from a Not-for-Profit partnership company into a Closed Joint-Stock Company (CJSC) on 10 August 2009, and merged with the Moscow Interbank Currency Exchange Settlement House (MICEX SH) in November 2010 under the new name of NSD.

NSD now publishes financial statements in both Russian (RAS - as required by law) and international standards (International Financial Reporting Standards (IFRS)).

NSD had a total equity of RUB 9.048 billion (USD 275 million) on 31 December 2013 compared with 8.539 billion (USD 260 million) on 31 December 2012, RUB 6,202 million (USD 192.4 million) as at 31 December 2011, RUB 8,193 million (USD 268.3) as at 31 December 2010 and RUB 4,225.95 million as at 31 December 2009. The decrease between 2010 and 2011 was mainly due to a reduction in retained earnings in dividend payments. The significant increase in capital from 2009 and 2010 is a result of the merger with MICEX Settlement House, which became effective on 3 November 2010.

NSD's equity at the end of 2013 was composed 13% of share capital (RUB 1,193.982 million); 21.6% of share premium (RUB 1,957.05 million) and 65% of retained earnings (RUB 5,873 million).

NSD's capital seems adequate for the market (as a depository that holds securities and cash accounts on behalf of participants) and it considerably surpasses the minimum capital requirements for clearing and settlement organisations established by the Financial Markets Service of the Bank of Russia (RUB 250 million) and Bank of Russia's requirements for non-credit banking organisations RUB 90 million .

In addition to CBR's directions, NSD has its own criteria for cash allocations. The limits are as follows:

- the volume of the cash allowed for allocation cannot be more than the sum of NSD's capital and 50% of client's non-credit organisation's funds;
- the volume allowed for allocation for Bank of Russia 's overnight holdings cannot be more than the sum of NSD's capital and 50% of client's non-credit organisation's funds and at the same time cannot exceed 50% of the client's funds;
- simultaneously weekly Bank of Russia deposits cannot exceed RUB 20 billion, and
- maximum amount for Debt securities of the Russian Federation / Deposits with the Bank of Russia/Bonds issued by the Bank of Russia is RUB 35 billion.

Following the approval of the CSD law, NSD is the sole CSD in the market and has obtained a monopoly position.

Moscow Exchange owns 99.997% of NSD while 34 other minority shareholders jointly own 0.003% stake in NSD. CBR is expected to withdraw from Moscow Exchange's share capital by 2015; however, as NSD is a systemically important financial institution, CBR

will act as the resolution authority and will probably provide financial support if necessary.

Earnings Performance

Prior to 10 August 2009, NDC was a not-for-profit partnership and as such did not distribute profits to its members. Excess funds were used to increase the capital while fee reductions moderated the growth in revenue.

NSD has reported significant profits over the last five plus years. NSD Reported RUB 3.487 billion (USD 106 million) in net profits for 2013, about 1% lower than RUB 3.535 billion (USD 107.5 million) for 2012 according to IFRS. The net profit for H1 2014 is RUB 1.7 billion (USD 50.1 million).

Based on International Financial Reporting Standards (IFRS), Net profit of NSD for 2012 was 46.7% higher than the previous year and reached RUB 3.54 billion (USD 114.08 million). In 2011 it was RUB 2.41 billion (USD 75.03 million) a 123% increase from the RUB 1.084 billion (USD 35.5 million) reported in 2010 (RUB 493.70 million for 2009, RUB 401.9 million for 2008 and RUB 393.1 million for 2007).

The total operating revenue for 2013 amounted to RUB 6.598 billion (USD 201 million), about 7% higher than RUB 6.15 billion (USD 198.5 million) in 2012. The total operating revenues was RUB 4.48 billion (USD 139.68 million) for 2011, RUB 2.137 billion (USD 69.97 million) for 2010, RUB 1.40 billion (USD 46 million) for 2009 and RUB 1.29 billion (USD 43 million) for 2008.

NSD participants' cash accounts turnover and securities turnover (the market value of securities transferred in inventory operations) for 2012 increased to RUB 261.563 trillion and RUB 143.543 trillion respectively. This is 9.2% and 49.7% more than for 2011 where it reached RUB 239.6 trillion and RUB 95.9 trillion, respectively and follow the growth of 37.4% and 41.5% in comparison with 2010 (RUB 174.4 trillion and RUB 67.7 trillion, respectively).

NSD generates revenue both as a de facto depository, primarily for government debt, but also as a domestic and international custodian. Volumes have been increasing, more than offsetting fee reductions.

Since over half of NSD's revenues from fees and commissions income are derived from safekeeping services of fixed income securities, the potential for revenue instability is reduced. The issuer is required to include the name of the depository where the securities will be held in their prospectus and the securities cannot be withdrawn. In addition, NSD is the only depository for government securities. However, 48.1% of total income during the first nine months of 2014 was generated from interest on investments (both from participants' and proprietary funds). Net gains from operations with securities also contributed a significant portion of NSD's revenue. These gains are primarily from interest income accrued on government bonds held for trading. There is a risk of NSD's financial performance being affected if participants decided to withdraw funds overnight to their main bank account or requested NSD to transfer the interest NSD obtains from holding their money overnight.

Guarantee Funds (Central Counterparty Funds Only)

Not applicable

Access to Credit

NSD has a General Credit Agreement with Bank of Russia (Bank of Russia Regulation No. 236_P, dated 4 August 2003, "On the Procedure for Extending by the Bank of Russia Loans against the Collateral Blocking of Securities") with amendments (Regulation No. 236_P). Under this agreement, NSD has a RUB 5,395 million (USD 168 million) overdraft facility from CBR. Proprietary securities of NSD can be pledged as collateral for this credit facility and the haircuts vary depending on the type of security from 0% (government bonds to 50% for equities). NSD also has a committed line of credit in place with the Bank of Russia, which as of 30 June 2014 stood at RUB 6.8 billion (USD 144 million), having decreased from RUB 19,432 million (USD 605 million) on 30 June 2013.

In addition, NSD has sufficient liquid net assets in place as established in the CPSS IOSCO principles for FMI that a minimum, an FMI should hold liquid net assets funded by equity equal to at least six months of current operating expenses. At of September 2014, NSD had around 18 months of operating expenses covered with its net liquid assets.

Insurance

NSD holds a regular comprehensive crime and professional liability policy from Ingosstakh Insurance Co. The limit of indemnity is USD 65 million for 2014 per single claim as well as for all claims made during the term of the policy. The deductible stands at USD 250,000.

The policy is reinsured mainly with Lloyd's syndicate as well as large German reinsurers.

An insurance event, according to the agreement signed, are losses incurred by the Insured and third parties (including but not limited to NSD's participants) as a result of unlawful actions of third parties and staff of the Insured, including electronic and computer offences, operations with fake documents, securities and money and others, incurred as a result of errors and omissions, unintentionally made by management and staff of the Insured while conducting professional activities.

According to the Policy the loss occurrence is a fact of establishing insurer obligation according to civil legislation of the Russian Federation to cover losses incurred by third parties resulting from errors, omissions or negligence of management and/or staff of the Insured while conducting insured activities.

The insurance covers all insured events that occurred within the terms of the Policy.

According to NSD's policy, the following risks are insured:

- Intentional unlawful actions of staff;
- Losses from loss/ destruction or damage of property of insured company, located on its premises, only in cases of theft/attempt of theft, intentional damage;
- Losses from operations based on fake settlement (payment) instructions:
 1. Intentional unlawful actions of staff
 2. Valuables on premises
 3. Fake documents
 4. Fake securities
 5. Blackmail and extortion by personal threats (except for kidnapping aimed at receiving ransom)
 6. Premises and property located there
 7. Computer systems
 8. Activities of servicing (processing) company
 9. Computer commands
 10. Electronic data and database
 11. Computer viruses
 12. Incoming electronic messages
 13. Outgoing electronic messages
 14. Securities on electronic means
 15. Fake facsimile messages
- 16. Expenses from elimination of after-effects of losses;
- Losses from operations with fake securities;
- Losses of Insurant suffered in connection with unauthorised entry into computer systems;
- Losses suffered from unauthorised entry of commands into the computer system of Insurant's client including those cases when Insured entity acts as the processing company;
- Losses suffered from entry of fraudulent electronic commands into NSD's computer system;
- Insurant's losses from damage/deletion of electronic data and its carrier;
- Losses suffered in connection with receipt of fake/fraudulent electronic instructions;
- Losses from loss of securities held in electronic format as a result of execution of fake electronic instructions;
- Losses arising from execution of electronic transactions based on fake instructions;
- Losses suffered from money transfer based on fraudulent facsimile messages;
- Losses suffered from money transfer based on fraudulent telephone instructions;

Property interest of insured entity in connection with its obligation to cover losses suffered as a result of its activities by third parties from errors, carelessness or negligence of NSD's managers and/or staff while conducting insured activities.

Potential Claims on Financial Resources

Credit Loss

NSD has not suffered any material loss during its existence and has not been subject to any litigation involving a participant.

Central Counterparty Exposure

NSD does not have any direct exposure as central counterparty.

Also, in October 2009, NDC withdrew from the ownership of the National Clearing Centre (NCC) by selling its stake in NCC to MICEX.

Liability for Operational Losses

NSD takes financial responsibility for any errors or omissions made by NSD or its staff in accordance with Russian Civil Law.

In practice, the liability could be challenged in the court. And NSD has never had any claims against them.

Investment in Infrastructure

NSD has some investments in the short term. Some are relatively significant investments but they have all been budgeted for for 2014 - 2015 and NSD should have sufficient reserves in place to meet these obligations:

- Automated Corporate Actions System (ACAS), approximately USD 1.6 million;
- Corporate Information Centre, approximately USD 2.22 million;
- Optimisation of repository system infrastructure, about USD 0.5 million;
- Identification of FATCA requirements, USD 0.4 million;
- Other projects which require relatively insignificant investments.

Financial Risk - Key indicators

Ownership of the CSD

	Number - Domestic	Number - Foreign	Total Percentage
Central Bank	0	0	0
Stock Exchange	1	0	approximately 99.997%
Participant banks	19	0	less than 0.1% each
Broker/dealers	9	0	less than 0.1% each
Mutual funds	0	0	0
Private clients	0	0	0
Others	3	0	less than 0.1%
Registrars	5	-	less than 0.1% each (5 shares)

Comments

Following the merger of NDC and the Moscow Interbank Currency Exchange Settlement House (MICEX SH), Moscow Exchange owns more than 99% of NSD. However, Bank of Russia will continue to have an indirect interest in NSD through the Moscow Exchange.

On 30 June 2011 the minority shareholders of NSD signed the shareholders' agreement with MICEX. The agreement fixes the

principles of corporate management of the depository, including the right of the users to participate in the determination of the product line of the depository and its tariff policy as well as to control the quality of service.

Statistics

	Capital structure Local Currency
Issued capital	1.193 (RUB billion)
Surplus	1.957 (RUB billion)
Retained earnings	5.873 (RUB billion)
Total	9.048 (RUB billion)

Comments

Statistics as of 31 December 2013 - calculated on international financial reporting standards.

Lines of stock

	2010	2011	2012	2013	2014
Lines of stock	3,268	4,193	6,697	6,879	-
% Stock Exchange transactions cleared & settled through CSD	100	100	100	100	-
Total value of securities under custody	7,718 (RUB trillion)	8,139 (RUB trillion)	12,049 (RUB trillion)	21,764 (RUB trillion)	-

Comments

-

Equities

	2010	2011	2012	2013	2014
Market Value	-	1,568	4,296	12,138	-
% of issued securities in the CSD	N/A	N/A	N/A	N/A	-
% of market capitalisation in the CSD	N/A	N/A	N/A	N/A	-

Comments

RUB billion

All figures as at 31 December

Fixed Income

	2010	2011	2012	2013	2014
Market Value	-	3,280	7,599	9,420	-
% of issued securities in the CSD	-	99%	99%	99%	-
% of market capitalisation in the CSD	-	99%	99%	99%	-

Comments

Corporate, sub-federal and municipal bonds, RUB trillion (value at par)

All figures as at 31 December

Money Markets

	2010	2011	2012	2013	2014
Market Value	N/A	N/A	N/A	N/A	-
% of issued securities in the CSD	N/A	N/A	N/A	N/A	-
% of market capitalisation in the CSD	N/A	N/A	N/A	N/A	-

Comments

Government debt, RUB billion

All figures as at 31 December

Operational Risk

Summary

NSD has reported that it has internal control procedures in place to mitigate operational risk. A risk management team has been identified and designated to map the risk profile of the company. Financial reviews and audits are carried out at regular intervals by internal and external auditors. Operational reviews are undertaken by the Internal Control department; and an external IT audit was conducted by E&Y in 2013. NSD has continued to automate operational processes through use of its EDI system and is planning to automate the processing of corporate actions by implementing SWIFT.

NSD also improved its business continuity arrangements to increase the number of desks in its alternative site. Both the BCP and DRP arrangements are tested at least twice a year.

Depository controls

Risk Management

There is a dedicated risk management team with responsibility for identifying operational and credit exposures of NSD with respect to its depository and cash settlement activities. NSD completed the risk matrix in late 2013 identifying the main risk areas and relevant controls with the help of an external party. The risk matrix and risk management approach were approved by the Board in their meeting in October 2013. At the end of 2013, the supervisory board made amendments in the risk management strategy for 2014-2015 and considered key priorities in the NSD's activities.

Within each department there are risk management champions that are responsible for the development of a risk register within their areas as well as the identification and reporting of any errors.

The Risk management department report regularly to the Risk Management Committee, the Supervisory Board Audit Committee, and participate in the Change Committee, Incident Management Committee and the Moscow Exchange Group Operation. They also report through to the Executive Board.

Access Controls

Access to the NSD facility is controlled by the use of armed guards, electronic keys/personal identification cards, passwords and a security system. All staff members are required to carry company ID cards and visitors to the premises are issued with visitor's passes. There are some access restrictions to certain areas for personnel and external visitors.

Access to data processing facilities and operational areas is allowed only for authorised staff. Server rooms are fitted with alarmed steel door with RFID (radio frequency ID) locks.

Entry to the data centre is controlled by the landlord's security service and is only granted upon formal requests agreed with the landlord and tenant management. The site is constantly monitored using CCTV cameras connected to the remote security service at NSD.

Access to Safe / Vault

Global certificates are stored in a safe and are subject to the safekeeping procedures stipulated in internal NSD document Orders NN 311 and 216. The safe is located in the accountancy department office. Access to the safe is restricted to selected personnel. The safe is secured by an alarm system which is not connected to the police, but is continuously guarded by Moscow Exchange staff. All lodgements or removals from the safe are logged, but there is no record of how often the safe is accessed. A full audit of vault inventory is carried out by the internal controller, Head of Accounting and Head of Corporate Actions each month. There are two keys for the safe: one is kept by the Head of Accounting and the second one by the accounting staff. Each department has their own safe for valuables.

Established Documented Procedures

There are established documented procedures in place for most operational activities. Staff are trained with reference to the procedures. Procedures are documented in detail and include the use of process diagrams.

The Head of each Department is responsible for updating procedures. Though there is no formal program for the review of existing procedures, there is a formal process to approve new procedures which includes Internal Control Department. The internal control department can make recommendations to change procedures to the risk management department and the executive board.

Reporting

- Current Information

All transactions initiated by participants and registries are reported back to them for verification. Each participant receives information and status of their account, including safekeeping reports, by either electronic link or by physical account statements.

The account information of on-exchange participants is available online via the Moscow Exchange system. All participants see their securities positions through this new interface. They are also able to see their trade status (i.e. matched, pending, unmatched) through the NSD EDI system (LUCH). Also, participants receive a confirmation report immediately after settlement and the participants are able to receive the accounts balances on a regular basis by sending a special instruction indicating the type of report and frequency. This facility allows participants to extract an electronic file to automate the reconciliation of their securities held with NSD.

An audit trail of all activity on a participants' account system wide is available on-line and in real time.

The system capacity for generation of reports was increased by 3 or 4 times during 2013. Some improvements to the reporting capabilities took place in 2013. New reports were added. NSD now accommodates all 54 and 53 series. All settlement instructions and confirmations can now be sent via SWIFT.

- Historical Information

Participants may request reports for specific historical information dating back to 2003. Reports received cannot generally be customised.

Internal Control Department / Audit

NSD has an internal control (IC) department which has 3 staff members now, however NSD is looking to hire 4 more people for this department. The focus of the internal audit team in compliance issues rather than risk assessment seems to be on-going but the focus of the internal audit team is expected to be on audit. Although there has been a separation of functions, a proper internal audit role is yet to be fully developed.

Internal Control is supported within each department's operations area by selected departmental staff who are trained to be risk co-ordinators and are responsible to raise error reports as errors are identified. Operational errors are reported on by those responsible and reports are reviewed by Internal Control.

Money laundering is a concern of the credit business, thus checks are made on a quarterly basis. The Bank of Russia recommends the scope and the frequency of the audits of the credit business and conducted its own audit in February 2012. For the depository business, the most important concern is corporate actions and payment of incomes.

The findings of Internal Control are submitted quarterly to the Audit Committee, and semi-annually to the Supervisory Board. A final report is also submitted to the CEO. Corrective action plans are given to departments with recommendations and progress on these recommendations are traced and included in the IC reports. IC is engaged to audit projects primarily in a consultative role to avoid conflicts of interest.

No critical issues were reported to the Board during 2014.

CBR regulates NSD's activities for both its depository and limited banking activities. CBR recommends the scope and frequency of the audit of AML (money laundering) related checks conducted by the IC-credit department.

Check lists are not widely used in operational areas which reduce the efficiency of controls and audit. CBR also requires NSD to develop a plan for the next three years. The plan for this year has been developed and approved based on PWC recommendations

External Audit

NSD has only recommenced external audits related to its operations in 2012 although in October 2011, the Executive Board requested KPMG to undertake a pre-audit (gap analysis). NSD is now required, under CSD law to undertake an operational audit at least bi-annually. Accordingly, in February 2012 an ISAE 3402 Type 1 audit was performed on the control environment at NSD. PWC is also in the process of concluding its external operational audit of NSD for 2013.

NSD also undertook an IT audit with an external firm (E&Y). Following the results, the IT team developed its strategy for the next 3 years which was approved in the first meeting of the Supervisory Board in 2014.

In January 2014 – PWC audited 6 control objectives and did not find any misrepresentations or irregularities in NSD operations. A non-qualified type 1 report as of 18 November 2013 was issued and presented to one of the board members.

Controls on Manual Input (Depository and Corporate Actions)

For all operations which require manual input into the system, dual input is required, whether or not this will affect balance of a depository account. Every depo operation receives a unique ID in the system.

Corporate action information is generally manually entered into the NSD system. For this, dual input is required and a third person confirms the information.

Reconciliation

NSD reconciles balances with registrars and other depositories and resolves differences on a timely basis. The depository department reconciles with the registrars based on notes on the NSD account balance on a transaction-by-transaction basis.

In addition, the depository department also regularly reconciles total balances of depo accounts in the depository accounting system of NSD with NSD's account balance reported by the place of custody. Reconciliation is conducted every time a statement or note is received. For the most actively-traded securities, balances and transaction-by-transaction reconciliation is conducted daily. For others, reconciliation is performed at least twice per month.

Custodians are now obliged to disclose their clients' identities and the number of shares they own in response to any requests at any time from registrars or depositories, regardless of reason for these requests.

- Training

NSD allocates a specific budget for training annually. Training needs are identified by the manager and requested to the Human Resources department for approval.

Training courses include professional training, which is mostly in-house as well as skills training such as management and leadership courses, English etc depending on the needs identified for each role. There is also a risk training developed together by human resources and the risk department to train new and old employees on risk awareness at NSD.

There is also a corporate course training which provides a course on corporate values and policies.

Senior and mid managers also have to have a specific leadership and management course provided externally.

NSD's training policies include providing the adequate training according to the needs of the role. For instance, English courses are provided throughout the organisation.

There is also an annual appraisal process that includes a review of KPIs on the basis of corporate and individual goals, corporate values and competences.

Clearing controls

The introduction of e-document interchange has allowed remote participants, outside of Moscow, to gain direct access to NSD thereby reducing operational risk.

NSD became a SWIFT member in 2001 and is ISO 15022 compliant. However, NSD, Moscow Exchange and SWIFT signed an agreement on Alliance Lite, which will provide NSD's counterparties an easier and low cost access to the SWIFT and securities settlement infrastructure.

Settlement Controls

NSD launched the Alameda depository system in January 2011. Participants can conduct depository operations via a web interface based on Oracle. The status of instructions is available to be monitored via the system. Reports can also be automatically generated using the system. Clients can view details of their depo accounts and sub-accounts, and are able to access information on securities (including related corporate events).

Payments passing through the system should be electronically signed and unauthorised instructions are refused. NSD first verifies the adequacy of funds in participant accounts before executing settlement.

NSD operations that involve manual input of key information into the NSD system are controlled using dual-input and are confirmed by another person.

Data processing controls

Processing

- System Automation

Moscow Exchange transactions and clearing reports are processed automatically between Moscow Exchange and NSD without the need for manual processing.

- Straight-Through-Processing

There is straight through processing between the exchange and NSD.

NSD connects with participants using the Electronic Document Interchange system (EDI / LUCH) which EDI offers cryptographic protection to all communications but which has limited capacity to support STP (EDI messages are sent by e-mail).

However, the proprietary communication system (LUCH) is not linked to the NSD system to allow for corporate actions information to be entered seamlessly. Manual input of CA information into the NSD system is still required. Some fields can be populated automatically but generally manual input is required.

NSD utilises SWIFT messages for settlement (security and payment instruction and confirmation), reconciliation, customer payments, cash management and financial institution transfers. SWIFT messages are expected to be available for corporate actions in 2014. Major participants are SWIFT-enabled. However, EDI does not readily support an interface with SWIFT.

All 39 registrars are now linked to NSD. The CSD Law obliged registrars to link to the CSD via EDI. However, some still use their proprietary EDI system which restricts the ability to harmonise and standardise communications in the market.

Participants using EDI have remarked that there is no true STP as client instructions need to be manually input into LUCH due to format incompatibility. Same is true for information / confirmation received from NSD for onward client distribution.

Since the beginning of 2004 almost 99% of instructions and outgoing reports have been via EDI. The few instructions that are still received in paper form are doubled-input and matched to ensure accuracy. Data and electronic documents that utilise the EDI system are encrypted.

Systems Software / Database

NSD's securities depository system, Alameda, is based on the Oracle platform and is supported in-house. The system allows participants to conduct a series of depository operations and create all the necessary reports on an automated basis. Alameda runs alongside LUCH, which are both maintained by NSD. The cash settlement system is based on Oracle and Informix platforms. Arrangements are in place for software version control and database backup.

The Technology Department ensure all process and software changes are responsive new law, are supported with the appropriate legal documentation, and software changes meet business requirements and are fully tested at all levels.

Systems Hardware

System hardware is now maintained in-house. There was a long episode of system unavailability (for 4 hours) during 2013 related to incorrect processing of incoming instructions.

The operational environment meets high performance requirements and has sufficient scaling capacity utilising Hewlett-Packard HP-UNIX software and a relational database management system developed by Informix. System capacity is maintained at the higher of 10 times average loading and 3 times peak loading.

System access security is maintained by password access, segregation of staff duties, regular review of operator audit trails, and regular reporting on operation statistics. Physical access to the primary site is monitored by CCTV.

The Primary site includes the following reliance features – remote access, dual systems and mirrored disks, dual power supplies and generator, smoke alarms and temperature controls. Also, there is real-time data duplication and back up to the secondary site.

Network with Participants

Bank of Russia and participants have access to the NSD proprietary system. The network is maintained by Moscow Exchange through an outsource agreement. Moscow Exchange also monitor network performance. There is built in automatic fail-over to redundant nodes in the case of disruption.

The telecommunication system hardware is built on the network equipment manufactured by such leading companies as Cisco, Lightstream, and Hewlett-Packard.

NSD connects with participants via email (the internet) using the Electronic Document Interchange system (EDI / LUCH), offering cryptographic protection to all communications. SWIFT messaging, as an alternative, is rarely used for communications between participants and NSD. NSD has the necessary licenses to work with electronic documents with cryptographic protection.

With Moscow Exchange, the local network connection with NSD is also cryptographically protected. Intraday clearing reports are transmitted by a separate server using software provided by Moscow Exchange. Formal communication is sent via courier.

NSD has a dedicated link to the central bank's BESP RTGS system from the operations site and the Kislovskiy site. The proprietary system is provided by the Bank of Russia.

Security and Resilience

The duty of employees is assigned a corresponding role in the system. Access control segregation is conducted according to formal

access grant or modification request, as agreed with the Head of the IT department.

Electronic links are controlled by passwords, which must be changed regularly. Each user has a unique identifier and a lock-out facility is triggered after three unsuccessful user ID attempts. Unauthorised access attempts are logged and investigated. NSD provides password protection at domain services and at the level of main services. Cryptographic protection is available for remote access. To further improve security, critical computers and the production network are separated from the office network.

Disaster Recovery/Business Continuity Procedures

Disaster Recovery Procedures

- Disaster Recovery Arrangements

NSD has established documented procedures and training to support staff switching to the DRP site. This includes a communication plan. Procedures are maintained by dedicated staff and reviewed at least annually.

The procedures identify the key processes that need to be followed in the event of an emergency such as evacuation of personnel, extending NSD's back up office and informing employees, transfer of main system to back-up office, medical and psychological assistance to the staff, preparation of back up office in the event that the main office becomes inaccessible.

- Disaster Recovery Site Details

NSD operates three sites: the primary operations site, the main data site (Kislowkiy), and the back-up site (Warszawska).

The main data site of NSD is located around 6 kilometres (in Kislowkiy) from the operations site. The back-up site located in Warszawska is 15 kilometres from both the operation site and the Kislovskiy site. The three locations are on different electrical grids and are connected by dark fibre links. Critical data is replicated in real-time between the data sites and the primary site.

The Kislowkiy data site can be remotely operated. It houses a redundant back-up system which replicates the processes in the main data system in real-time. However, in the event of a disruption in the main system, the switch-over between the two systems is seamless but NSD operations typically allow up to 30 minutes to trouble shoot prior to making the decision to transfer operations to the back-up. The back-up site is set up to accommodate 379 critical NSD staff on the day of operational disruptions, with provisions to add another 47 within 2 hours. Business continuity plans indicate that this number could be extended to additional 100 non-operational staff as necessary, working up to six months. In addition, the data site has uninterruptible power supply (UPS) and generator with diesel enough for 24-hour operations. NSD has contracts in place with fuel providers for the supply of diesel. The data centre is fitted with fire alarms and a gas fire suppression system.

The secondary back-up system in Warszawska is warm and takes up to 2 hours to commence production. When the back-up system is activated, it is the policy of the group to revert on a weekend rather than a weekday even after the problems in the main data site have been resolved.

The back-up centre is equipped with CCTV system which tracks video received from entry/exit door areas, aisles, racks, electrical and engineering systems. Server premises have precision climate control with conditioning and balanced ventilation. The power supply system is capable of maintaining optimum conditions for engineering systems. It consists of a set of 4 UOS units (4 units of 1600 kVA each and 4 units of 800 kVA each) and 4 diesel generators. In October 2013, NSD finalised expansion and modernisation works at the site which increased more than two-fold the work stations available.

- Disaster Recovery Test and Audit

NSD undertakes two tests a year which are audited. The tests cover all critical processes but are not conducted in a live environment.

The last test was conducted on 28 April 2014 without the participation of any market participant.

NSD is considering having a live DR test in the future.

Business Continuity Procedures

- Business Continuity Arrangements

BCP policy, procedures and communication plans are revised at least annually, or when any discrepancies are found during testing, or significant changes in organisational, or technical infrastructure of NSD, or introduction of any new services and implementation of new business processes in NSD.

- Business Continuity Site Details

The primary data site acts as the business continuity site.

There are immediate provisions for 96 NSD staff members (exclusively). The standby office is currently working on a day to day basis, however, all the units have not been transferred to the back-up site. Recovery time is about 15-20 minutes for critical operations, however, some operations may take up to 2 hours and some processes have to be performed with the collaboration of the Head Office. The staff is also rotated at the back up site. There is no remote access for employees. There would be a reduction of services if NSD's main site became inaccessible.

- Business Continuity Procedures Test and Audit

The NSD's BC plan was tested for the first time in December 2011, although it was a limited test involving the operations team only covering depository and settlement services. NSD undertakes several partial tests a year to ensure that staff are familiar with the BC site and the work stations allocated to them, On 12 November 2013, NSD, NCC and the Moscow Exchange conducted with successful results a test of their BCPs in order to assess the links between them and the Central Bank of Russia (CBR).

NSD conducted a business continuity test on 25 September 2014 from its back up office and carried out core business processes from NSD's back office. Effective 1 July 2014, the NSD started operating on full time basis its backup office and deployed a group of employees permanently executing their functions from the backup site.

There has not been a surprise test.

Depository Liability

According to Russian Civil Law, NSD is required to take liability for financial losses caused by their errors or omissions.

Systems Performance

The computer system is to be accessible permanently except when there are scheduled breaks for technical support and software upgrades etc. The system capacity had been tested to cope with ten times the average daily volume.

The annual system uptime is 99%.

Operational Risk - Key indicators

Control objectives identified by the CSD match standard objectives

Yes

Key controls and procedures are identified by the CSD

Yes

Independent evidence exists that key controls and procedures have operated effectively through the last year

Yes

Material errors have been identified

No

Governance and Transparency

Summary

NSD has a board (Supervisory Board) of 15 directors of which there is one independent director. The chairman of the Supervisory Board is a non-executive director and the CEO of NSD is a member. There are four committees of the Supervisory Board, including an Audit Committee. Risk management, which has been accorded greater importance within NSD in recent years, reports through to the Management Board. The Internal auditor attends meetings of the Audit Committee but the external auditor responsible for the Operational Audit has not been invited to the meetings. There is no separate assessment of the performance of the Board. The link between NSD and its participants has been enhanced in recent years by the establishment of five user groups. NSD provides reasonable disclosure of corporate information, although it generally does not provide information on relevant capital market laws. It also provides some statistical information including information on corporate action activity.

Board Structure

NSD has established a Supervisory Board composed of 15 seats: 7 representatives nominated by Moscow Exchange and 8 by the Supervisory Board itself (out of this 6 are recommended by the Committee of remuneration and hiring, 1 is nominated by CBR and 1 executive member - NSD's CEO).

The 6 members recommended by the Committee on Remuneration and Hiring include 2 independent, 1 representative from a major user who is not a shareholder and 3 minority shareholders. Foreign experts can be elected as independent members. At October 2014, there are currently 5 independent members which include 2 foreign experts.

The Supervisory Board has four committees – Remuneration and Nomination Committee, Audit Committee, IT Policy and Development Committee, and Budget Committee.

All major decisions have to be approved at the Annual General Meeting of shareholders.

Board Responsibilities and Performance

The existence of an independent director provides a level of objectivity to the decisions of the Supervisory Board. Nevertheless, the performance of the Board is not independently assessed apart from at the Annual General Shareholders meeting.

All shareholders, including minority shareholders, exert influence over the Board and management and meet regularly to discuss issues.

Board Relationships

Moscow Exchange group determines the auditors which are approved at the General meeting – the policy is to change the auditors every 3 to 4 years.

The Internal Controller directly reports to the Supervisory Board but the external auditor responsible for the operational audit does not attend meetings.

NSD has developed a Corporate Governance Manual that sets out the roles and responsibilities of the Board and its committees.

Audit and Risk Management Committees

NSD has established an Audit Committee at the Supervisory Board level and a Risk Committee at the Management Board level. The Head of Internal Control reports to the Audit Committee and receives instructions on IC's work programme.

The findings of the IC are submitted to the Audit Committee of the Supervisory Board on a quarterly basis, to the Supervisory Board on a semi-annual basis, and the final report is submitted to the CEO annually. IC makes recommendations on any changes in procedures to the Risk Management Department and the Executive Board.

Committee Performance

NSD formed a Risk Management department which developed the risk profile of the company in its roles as a settlement depository and cash settlement agent. The output of the RM department was presented to the Supervisory Board in October 2013.

Management Structures

There is a Risk Management Board that is chaired by the Vice President on Legal, Risks and Corporate Governance. The Board meets on a monthly basis and is represented by 2 members of the Management Board and four directors.

NSD assesses management performance against specific criteria which are reviewed by the Remuneration and Nomination Committee of the Supervisory Board. Performance assessment is conducted on an annual basis and management remuneration is assessed against the achievement of the specific criteria.

The Supervisory Board nominates Management Board members and determines their remuneration.

A code of Conduct has been developed for all employees of NSD.

Management Communication

Management Board meetings are held on a weekly basis and the CEO has meetings with the managers on a daily basis.

User Group Structures

In addition to the Supervisory Board, there are 5 committees involving participants as follows:

- CSD Service User Committee: 25 members
- Customer Committee for Quality Control and Risk Management: 12 members.
- Customer Committee for Settlement & Depository Services and Tariffs: 11 members.
- Customer Committee for Registrar and Depository Relations: 17 members. There are four user groups:
- Committee for the development of Corporate Actions Information

User Group Participation

NSD employees and other experts are invited to meetings of the user groups. The committees are advisory bodies that make recommendations to NSD. In addition to these user groups, NSD has periodic meetings and seminars for its participants. These are organised by the Client Service department.

Public Information Management

NSD publishes information about its activities through its website. The annual report and accounts which need to be published by 1 June in the year following the report year are made available on the website. The report contains a range of information including information on the adequacy of internal controls as well as top management remuneration information.

There is a raft of other information on its website including full information on NSD's fee structure.

NSD does not publish its plan and budget, nor does it publish information on relevant capital market laws or its self-assessment on conformity to the CPSS-IOSCO principles.

Response to Regulatory Information Requirements

NSD is required to provide an extensive amount of information on its activities to the regulator as a part of its license as a CSD granted in 2012.

Statistical Information Management

The NSD website has monthly statistical information relating to:

- number and volume of securities being safekept
- number of issues of securities.

Data Mining Capability

NSD appears to have good data mining capabilities since statistics are provided on a detailed basis.

CSD on CSD (Credit) Risk

Summary

NSD has accounts with Clearstream and Euroclear bank.

NSD also has nominee accounts with National Depository of Ukraine (NDU), the Central Securities Depository of the Republic of Kazakhstan (KACD), the Central Depository of Kyrgyzstan, CJSC National Depository Centre of Azerbaijan and the Republican Central Securities Depository (RCDS) of the Republic of Belarus, which allow NSD to provide its clients with depository services for safekeeping of Kazakhstan, Kyrgyz, Azerbaijan and Belarus securities.

CSD - CSD Links

For foreign-currency denominated securities, NSD provides settlement of transactions on a DVP basis using NSD accounts at Clearstream and Euroclear Bank. Under the arrangement, NSD is responsible for the securities transfer and transfer of funds. Settlements are being executed in a range of foreign currencies involving transactions with Russian Eurobonds, ADRs and GDRs. These links are on a DVP basis.

NSD also has accounts at Ukraine's National Depository of Ukraine (NDU), the Belarussian CSD (RCSD) and the Central Depository of Kyrgyz Republic (CD). Additionally, NSD signed a MoU with the Central Securities Depository of Poland (KDPW) and Romania's Depozitarul Central S.A. (Depozitarul Central) that could lead to the implementation of an operational link between both CSDs.

The Austrian Central Securities Depository (OeKB) has a foreign nominee account at NSD which allows Austrian and international custodians holding securities accounts with OeKB to safekeep Russian securities and settle on-exchange and OTC transactions through it.

In January 2014 NSD and CDA (Armenia) signed a Memorandum of Cooperation which will allow the creation of an efficient and reliable system for services on cross-border transactions. Additionally, the agreement under which CDA opens a foreign nominee account at NSD was announced on 4 February 2014. In October 2011, the depositories had signed an agreement on opening and maintaining NSD's nominee account with CDA.

Processing Cycles

Euroclear Bank and Clearstream can settle on a DVP basis Russian OFZs (government bonds), corporate and municipal securities through their accounts at NSD. Those securities are eligible as collateral for securitised transactions where Euroclear Bank is the triparty collateral management agent.

Similarly, KACD settles on a DVP basis Russian securities through the nominee and cash accounts that KACD holds at NSD.

CSD on CSD (Credit Risk) - Key indicators

International Links: List of international links established and/or planned by the CSD

- Clearstream Banking S.A., Euroclear Bank
- Central Securities Depository of the Republic of Kazakhstan (KACD)
- CJSC National Depository Centre of Azerbaijan
- Republican Central Securities Depository of the Republic of Belarus
- National Depository of Ukraine (NDU)
- Austrian Central Securities Depository (OeKB)
- Central Depository of Kyrgyz Republic (CD)

General Details

About the Depository

Name and Address

National Settlement Depository (NSD)
Registered address: Building 8, 1/13, Sredny Kislovsky
Pereulok, Moscow 125009, Russia
Customer service address: 12 Spartakovskaya st., Moscow,
Russia.

Website

www.nsd.ru

Date of establishment

January 1997

Date commenced operations

March 1998

Legal status

Legally established under the Charter of NSD and governed
by the Federal Law on the Securities Market, CSD Law,
government decisions and various regulations.

Type of legal entity

Closed Joint-Stock Company (CJSC)

Regulated by

Central Bank of the Russian Federation (Bank of Russia).

Is use of the CSD required?

	Settlement	Safekeeping
By Law	Yes	Yes
By Market Practice	Yes	Yes

How securities are held

Dematerialised

Segregation of Assets at the Depository

Depository assets from participants

Yes

Participant assets from clients

Yes

Eligible Securities Depository under SEC Rule 17f-7

System of central handling of securities

Yes

Regulated by a financial regulatory authority

Yes

Holds assets of all participants on equivalent terms

Yes

Identifies and segregates participant assets

Yes

Periodic reports to participants

Yes

Periodic examination by a regulator or independent accountant

Yes

Domestic eligible participants

Stock Exchange, Central Bank, banks and brokers.

As at 30 June 2013, there were 1,966.

Foreign eligible participants

8

Ownership

MICEX-RTS (99.9%) and other 31 participants.

Internal Safety Measures

Services Provided

Participant Eligibility Criteria

Minimum Capital Standards

Yes

Comments

Established for banks by the Bank of Russia through its Financial Markets Service

Financial Aspects

Ability to raise capital/borrow

Yes

Committed lines of credit in place

Yes

Publish audit financials

Yes

Take lien on stock held

Yes

Central Bank Guarantee

Matching

Pre-matching services

No

Matching services

Yes

Comments

For OTC trades only

Clearing

Clearing services

Yes

Securities Settlement

Book-entry settlement

Yes

Fails management

No

No
Other third party guarantee
No
Third party insurance
Yes
<i>Safeguard Facilities</i>
Offsite Backup
Yes
Comments
At DRP facility
<i>Disaster Recovery</i>
Disaster Recovery Plan
Yes
Back-up power generator
Yes
UPS (Uninterruptible power supply)
Yes
Comments
DRP shared with Moscow Exchange

Comments
None for OTC
<i>Cash Settlement</i>
Internal cash settlement
Yes
<i>Stock Lending</i>
Securities lending for fails coverage
No
Comments
Reverse repos are used for borrowing bonds.
<i>Asset Servicing</i>
Notifications
Yes
Securities processing
Yes
Paying agent
Yes
Central registrar
Yes
Proxy voting services
Yes
Comments
Paying agent and registrar for certain bonds only
<i>Communications</i>

Electronic communications

Yes

Comments

SWIFT is available but is not widely utilised.

Reporting Services

Electronic reporting

Yes

Reporting of every movement

Yes

Regular statement of securities deposited

Yes

Definition

Definitions

Public Rating. This assessment has been compiled from information provided by third parties and the CSD and has been verified by Thomas Murray analysts during an on-site visit to the CSD. The report has been reviewed by the CSD. The ratings that have been assigned to the risks that are reviewed in the report have been determined by Thomas Murray analysts and approved by the Thomas Murray Rating Board. The ratings have been assigned in accordance with the process outlined in the published methodology as developed by Thomas Murray and on the basis of information confirmed by Thomas Murray analysts during a site visit to the CSD.

Publication Date

The publication date represented here is December 2014. This is the date that the assessment report has been reviewed by third parties that may include the CSD (for proprietary assessments). The report is updated on an on-going basis throughout the year as new information is received and should be read in conjunction with the relevant newflashes issued since the publication date.

RISK EXPOSURE DEFINITIONS

Asset Commitment Risk - The period of time from when control of securities or cash is given up until receipt of countervalue. This risk concerns the time period during which a participant's assets, either cash or stock, are frozen within the CSD and payment system pending final settlement of the underlying transaction(s). Following settlement, the risk period is extended until the transfer of funds and stock becomes irrevocable. It excludes any periods when assets, cash or stock, are committed to a market participant including brokers, banks and custodians, not caused by CSD processing.

Liquidity Risk - The risk that insufficient securities and or funds are available to meet commitments; the obligation will be covered some time later. This is where for certain technical reasons (e.g., stock out on loan, stock in course of registration, turn round of recently deposited stock is not possible) one or both parties to the trade has a shortfall in the amount of funds (credit line) or unencumbered stock available to meet settlement obligations when due. These shortfalls may lead to settlement 'fails' but do not normally lead to a default.

RATING SCALE

AAA	Extremely low risk
AA+	Very low risk
AA	
AA-	
A+	Low risk
A	
A-	
BBB	Acceptable risk
BB	Less than acceptable risk
B	Quite high risk
CCC	High risk
N/R	No rating has been given due to insufficient information

Contact:

Thomas Murray Data Services

Counterparty Risk - The risk that a counterparty (i.e., a participant) will not settle its obligations for full value at any time. This is simply the total default of a direct participant of the CSD. This is the event when a participant is unable to meet its financial liability to other participants. This risk only goes as far as direct participants of the CSD and excludes clients of direct participants that default on liabilities to such participants, even if such a default should systemically cause the direct participant to subsequently default.

Asset Safety Risk - The risk that assets held in custody at the CSD may be lost or misappropriated, either due to a default or an omission, misuse, or breakdown of controls (legal, operational or other). The CSD should protect against the risk of loss of assets of the participant or their clients due to an insolvency, the CSD's negligence, misuse of assets, fraud, poor administration, inadequate recordkeeping or other failure to protect a participant's assets. Asset segregation at the CSD and/or the domestic custodian by account structure and naming convention, assertion of liens, form and nature of securities (e.g. dematerialised, physical, bearer, registered), certain key concepts in local law (e.g. recognition of nominees), reconciliation of holdings, vault controls and the nature and placing of client cash deposits, are all factors taken into consideration in the assessment.

Asset Servicing Risk - The risk that a participant may incur a loss arising from missed or inaccurate information provided by the depository, or from incorrectly executed instructions, in respect of corporate actions and proxy voting. This risk arises when a participant places reliance on the information a depository provides or when the participant instructs the depository to carry out an economic transaction on its behalf. If the depository fails either to provide the information or to carry out the instruction correctly then the participant may suffer a loss for which the depository may not accept liability. The depository may provide these services on a commercial basis, without statutory immunity, or it may provide the service as part of its statutory role, possibly with some level of protection from liability. This risk is likely to become much higher when international securities are included in the service.

Financial Risk - The ability of the CSD to operate as a financially viable company. This risk concerns the financial strength of the depository and if its financial resources are sufficient to meet the on-going operation of the organisation. This risk also includes where the CSD may act as central counterparty, or otherwise acts in a Principal capacity.

Operational Risk - The risk that deficiencies in information systems or internal controls, human errors or management failures will result in losses. The risk of loss due to breakdowns or weaknesses in internal controls and procedures. Internal factors to be considered in the assessment include ensuring the CSD has formalised procedures established for its main services. The CSD should have identified control objectives and related key controls to ensure operation and proper control of established procedures. Systems and procedures should be tested periodically. There should be external audit processes in place to provide third-party audit evidence of the adequacy of the controls.

Governance & Transparency Risk - The risk that deficiencies in the way that the CSD is governed and managed will result in losses. The risk of loss due to poor governance and management arrangements and inadequate disclosure of information. The issues relate to the way that the depository is operated by directors and management, who have a responsibility to ensure that it operates according to the rules and regulations and the relevant securities market laws and to ensure that the market has adequate and timely information on a fair and equivalent basis. Factors to be considered in the assessment include ensuring the Board arrangements provide for high standards of governance, management operates to a high standard, participants are kept informed and able to equally provide their input to the CSD management, and the market has equal access to relevant and timely information.

CSD on CSD Credit Risk - the risk that a CSD is taking when linking to another CSD. The credit risk that a CSD is taking when linking to a peer group CSD, i.e. the risks a domestic CSD is taking in either providing a service for a foreign CSD or using a foreign CSD as a local service provider (host CSD). The risks arising from using these links to make cross-border settlements or to hold securities in a non-domestic CSD have not been assessed as part of this risk.

Horatio House,
77 - 85 Fulham Palace Road,
LONDON, W6 8JA

Tel: +44 (0) 20 8600 2300

Fax: +44 (0) 20 8741 7468

Email:

depositoryservice@ds.thomasmurray.com

Website: ds.thomasmurray.com

Names of analysts available on request.

**Copyright © 2015 Thomas Murray
Data Services**

Reproduction in whole or in part prohibited
except by permission.

All rights reserved.

The services and analysis provided by
Thomas Murray Data Services are provided
on an "as is" basis and Thomas Murray Data
Services make no representations or
warranties, express or implied, as to the
accuracy, adequacy or completeness of its
analysis or results to be obtained from
accessing and using this report (or any
information included therein), including
without limitation, any warranties of
merchantability or fitness for any particular
purpose or use.

Neither Thomas Murray Data Services nor
their affiliates shall be liable to any user or
anyone else for any inaccuracy, error or
omission, regardless of cause, in this report
or for any damages resulting therefrom.

In no event shall Thomas Murray Data
Services have any liability for lost profits or
for indirect, special, punitive or
consequential damages, even if advised of
the possibility of such damages.

Thomas Murray Data Services shall have no
liability to any third party arising from or
related to this report.

Neither this report nor any component of the
service provided by Thomas Murray Data
Services is a rating, endorsement or
guarantee of any Depository or its financial
strength or a recommendation to enter into
any agreement with any Depository.

Thomas Murray Data Services relied on
information provided by third parties
believed to be accurate and reliable but due
to the possibility of human or mechanical
error, Thomas Murray Data Services cannot
guarantee the accuracy of any such
information.