



National Settlement Depository

Rating Report Type: Public Rating

Overall Risk Rating: AA-

Overall Outlook: Stable

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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National Settlement Depository (NSD) superseded the National Depository Centre (NDC) following its merger with the MICEX Settlement House (MICEX SH) in November 2010.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 sole central securities depository (CSD) in Russia and is a part of the Moscow Exchange Group. NSD currently owns 99.998% stake in the Depository Clearing Company (DCC) and plans to complete a merger with DCC by 1 January 2013, following the merger of the MICEX and RTS exchanges.

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, some transactions with equities and also provides services for UIT units and securities of foreign issuers.

NSD is a central system for handling securities by law. NSD provides safekeeping and settlement services for government bonds denominated in Roubles (GKO and OFZs), corporate bonds, some issues of municipal and regional bonds and equities.

NSD holds a settlement depository licence from the Russia's Federal Service for Financial Markets (FFMS or FFMS of Russia) and a CSD status which was granted on 6 November 2012. It also has a restricted banking licence from the Central Bank of Russia (Bank of Russia). 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 FFMS of the Russian Federation in respect of securities settlement issues and by the Bank of Russia for its role as a credit institution.

Bonds are safekept in either dematerialised or immobilised form (via global certificates) while equities are held in dematerialised form.

The National Clearing Centre (NCC), a subsidiary of Moscow Exchange, acts as the clearing house, 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.

About the Depository

Date Commenced Operations: March 1998

Legal status: Legally established under the Foundation Agreement and the Charter of NSD and governed by the Federal Law on the Securities Market, Federal Law on Non-Commercial Organisations, government decisions and various regulations.

Regulated by: Federal Financial Markets Service of the Russian Federation (FFMS of Russia) and Central Bank of the Russian Federation (Bank of Russia).

Type of legal entity: Closed Joint-Stock Company (CJSC)

Region: C&E Europe

Services Provided

- Clearing
- Securities Settlement
- Cash Settlement
- Asset Servicing

Instruments Supported

- Equities
- Fixed Income
- Money Market Instruments

Overall Risk Summary

Thomas Murray issued a public rating of AA- to the National Settlement Depository (NSD) on 20 December 2012, which means very low risk. The rating was upgraded from A+. The outlook is Stable. The rating is a weighted average of six distinct risk components

comprised of Asset Commitment Risk, Liquidity Risk, Counterparty Risk, Financial Risk, Operational Risk and Asset Servicing Risk.

In 2012, NSD underwent a merger with DCC which effectively meant that NSD became the sole CSD in the Russian market and the only entity to have been granted CSD status from FFMS. The merger resulted in all securities being transferred to NSD. These changes have required NSD to consolidate some of the processes and harmonise policies across the organisation during the past year. They have also resulted in an increase in asset servicing activity for NSD as the equities, previously held with DCC, have been transferred into NSD.

Some key features of NSD's operations are as follows:

NSD operates a pre-funded model for most on-exchange transactions which assumes blocking of securities for both buyers and sellers during trading hours. For off-exchange, simple clearing and OTC settlement, settlement takes place on a continuous basis as soon as both securities and cash are available for settlement. Standard on-exchange trades (a legacy of the merger with DCC) settle in two intra-day batches with a short asset commitment period of 30 minutes for buyers and sellers.

Liquidity and Counterparty Risks for MICEX-RTS-traded securities are mitigated by the use of the pre-funding model. However, off-exchange trades have a higher degree of risk exposure due to the use of non-DVP settlement for the majority of trades and there being no settlement guarantee measures in place.

Asset servicing risk exposure is low. This 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). Nevertheless much of the processing involves manual operations and there is considerable scope in this area for the processes to be automated to enable STP of corporate actions with the resultant beneficial impact on asset servicing risk.

NSD's capital at around USD 180 million appears to be adequate for a depository that provides internal cash settlement services. NSD has additional resources in the form of liquid reserves and an insurance coverage of USD 65 million. It also has the ability to borrow from the CBR on a secured basis either intra-day or overnight. The company has been profitable over the past few years, although a significant proportion of its revenue is derived from interest income.

Operational Risk was upgraded to AA- in December 2012 due to improvements in a number of risk factors. Audit arrangements have noticeably improved. The internal control department which acts as internal auditors and undertake periodic audits on different areas and processes including the IT operations has increased its staff complement. NSD had an external operational audit (ISAE 3402 Type 1) undertaken on its controls and procedures in February 2012. Also a pre-audit gap analysis was undertaken in October 2011. Other external audits were undertaken during the year such as an information security audit, an audit arranged by FFMS, another by CBR and an audit on the risk management system. A dedicated Risk Management Department (RMD) is responsible for the risk identification and profiling of NSD's depository and other businesses risks. An external review resulted in recommendations from which RMD has developed a relevant roadmap for the further strengthening and improvement of the risk-management system adopted within NSD.

NSD has continued to improve its Disaster Recovery (DR) and Business Continuity (BC) arrangements. The primary data site houses a back-up system and also serves as the business continuity site for NSD staff members. A second back-up system is located 15 kilometres from both the production and the primary data sites. The sites have sound resilience features. Testing of the DRP and BCP arrangements has improved over previous practices but there remains scope to enhance arrangements further.

Governance and transparency arrangements have improved with enhanced user representation on Board and management committees. Some improvements could be made to NSD's data mining capabilities to provide the market with more statistical information on the settlement and custody operations.

Asset safety has been enhanced partly as a result of improved legal conventions stemming from recent law changes. The foreign nominee concept is now recognised and NSD, as the CSD, can legally grant ownership of securities in Russia while the beneficial ownership of participants is legally recognised. 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.

Risk Analysis Summary	Rating
<i>Overall Risk</i>	AA-
Asset Commitment Risk On-exchange equities and corporate bonds have a higher degree of asset commitment risk due to the 100%	A+

<p>pre-funding requirement. Therefore, the asset commitment period ranges between 0.5 and 10.5 hours for both buyers and sellers. Buyers and sellers of government bonds suffer a shorter asset commitment period since although both securities and cash are blocked prior to trading, the four intra-day settlement batches significantly reduce the period when cash and securities are blocked. Therefore, the asset commitment period ranges between 2 and 4 hours. OTC transactions and large value on-exchange trades settled through the 'simple clearing' mechanism have minimal asset commitment period as settlement takes place intra-day in real-time as soon as both securities and cash are available.</p>	
<p>Liquidity Risk</p> <p>Liquidity risk for on-exchange settlements is low since both securities and cash are pre-funded and immediately available for settlement on a net basis. However, liquidity risk for off-exchange settlements completed on a gross basis is high since other liquidity improving mechanisms are generally absent.</p>	A+
<p>Counterparty Risk</p> <p>Counterparty risk between participants is reduced by the pre-funding requirements before trading for on-exchange transactions and the integrated DVP arrangements. However, due to the pre-funding requirement brokers also suffer counterparty risk against NSD, which manages the cash and securities accounts.</p> <p>For off-exchange settlements, there is full counterparty exposure if the participant chooses to settle on an FOP basis. If settled DVP, there is no risk of principal loss, but some consequential losses may occur since there are no fails management mechanisms. Counterparty risk is somewhat mitigated by minimum capital requirements for participants imposed by FFMS and monitoring of participants by both FFMS and Moscow Exchange.</p>	AA-
<p>Asset Safety Risk</p> <p>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>Asset Servicing Risk</p> <p>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 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. 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.</p> <p>NSD offers tax reclaim and proxy voting services, but they are not currently used by participants.</p>	AA-
<p>Financial Risk</p> <p>NSD had a net equity of RUB 4.75 billion (approximately USD 147.90 million) at 1 October 2011. It seems to be relatively well capitalised compared to other CSDs in respect of securities under custody although its capital is just adequate for a depository that also holds cash accounts on behalf of participants. It also holds a significant proportion of liquid assets and insurance coverage for USD 65 million. Revenues are reasonably stable since about half of operational income is from safekeeping fees of fixed income securities. However, a significant proportion of revenues come from investments, which can be more volatile and have the ability to impact NSD's profitability.</p> <p>NSD must also take a high level of liability under Russian civil law and has some financial commitments including investments as a result of DCC's acquisition, a new cash settlement system, a new building and BCP equipment etc.</p>	AA
<p>Operational Risk</p> <p>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. No external operational audit had been undertaken on NSD since the integration of NDC and MICEX SH although a pre-audit was undertaken by KPMG in October</p>	AA-

2011. NSD has continued to automate operational processes through use of its EDI system and a new automated system of electronic cash settlements. NSD has implemented different projects aimed to strengthen its IT infrastructure and the information safety levels.

NSD is also reviewing its business continuity arrangements to incorporate changes that came about with the merger with MICEX SH. It maintains a near hot back-up facility at Kislovskiy and a warm site at Warszawska. The procedures were partially tested in December 2011.

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 attends all meetings. There are four committees of the Supervisory Board, being an Audit Committee, Remuneration and Nomination Committee, IT Policy and Development Committee and Budget Committee.

Risk management, which has been accorded greater importance within NSD in recent years, reports through to the Management Board. The Internal controller 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.

There is a Code of Conduct that establishes management standards and NSD has established a performance management system based on the achievement of measurable objectives which are reviewed by the Remuneration and Nomination Committee. The performance of managers is assessed on an annual basis and remuneration increases are set against achieving the specified performance standards.

The link between NSD and its participants has been enhanced in recent years by the establishment of four user groups. There are regular meetings of the user groups at which NSD employees and other experts are invited to attend.

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.

A+

Outlook Summary

The outlook for the National Settlement Depository (NSD) rating is 'Stable'. There are no known developments over the next 12 months that are likely to impact or change the rating. However there are some developments that will need to be carefully managed including the final changes relating to the merger with DCC and the move to T+2 settlement and away from the T+0 pre-funded model.

Other developments taking place in the marketplace that may have an impact on NSD include the completion and testing of NSD's business continuity plan and the introduction of new systems.

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

Regulatory and Independent Examination of the Depository

NSD is a Settlement Non-Bank Credit Institution, which is regulated by the Federal Financial Markets Service (FFMS) of the Russian Federation as a settlement depository and CBR for its role as a credit institution. No enforcement actions have been taken by a regulator on NSD in the past five plus years.

NSD reports to FFMS and is a member of the self-regulated organisations NSMA (National Securities Market Association) and NAUFOR (National Association of Securities Market Participants). NSD is required to submit quarterly report documents and copies of quarterly financial statements to FFMS.

Financial audits are carried out by the NSD's external auditors, Ernst & Young who have been appointed for a three-year period that commenced in 2011, and the audit is reviewed by the Audit Commission. FFMS audits may be undertaken upon the request of a third party.

External operational audits have been undertaken on an ad-hoc basis with KPMG undertaking an ISAE-3402 type 1 audit, which provided an opinion on its operational controls in February 2012.

The internal control department conducts operational audits on a regular basis, and directly reports to the Supervisory Board.

All relevant FFMS Acts are applicable to NSD. The regulations from Bank of Russia that govern the activities of NSD are as follows:

- Types of transactions that the company is entitled to perform;
- Statutory requirements (e.g. capital adequacy ratio, current liquidity ratio and requirements as to the use of the equity capital);
- Methodology for the determination of the ratios and reserves;
- Methods for calculation of various types of risks;
- Risk management principles;
- Principles of the organisation of the company's internal control system;
- Guidelines on the BCP arrangements of the Company.

Settlement Non-Bank Credit Institutions are also subject to some other regulatory requirements and are not able to perform the following transactions:

- Attract cash deposits from individuals and legal entities;
- Open and maintain bank accounts for individuals;
- Perform settlement upon instruction of individuals on their bank accounts;
- Sale and purchase of foreign currency in cash;
- Provision of bank guarantees.

However, settlement Non-Bank Credit Institutions can allocate cash in their names and on their behalf only within the limits specified by mandatory ratios. In this case cash can only be invested into the following:

- Debt securities of the Russian Federation;
- Deposits with the Central Bank of Russia;
- Bonds issued by the Central Bank of Russia;
- Loans and deposits of non-resident banks the home countries whereof have a specified rating and of Russian credit institutions

The Bank of Russia has a special audit team who visits NSD and conducts an on-site audit for two weeks. They cover the financials, procedures, internal documents, internal control and accounts. The last audit was undertaken in October 2012. The Bank also recommends the scope and frequency of the audit of Anti Money laundering checks conducted by the IC-credit department.

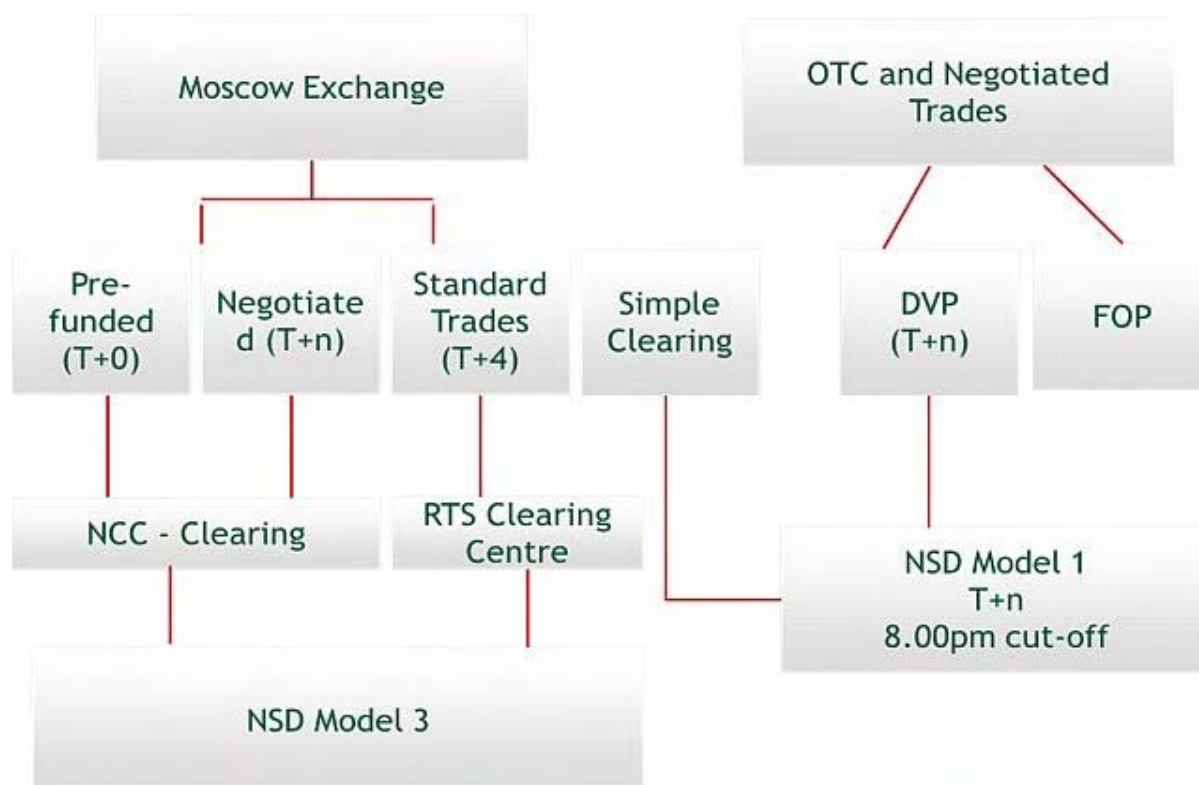
Relevant Legal Protection Mechanism

Russia enacted a new law, the Central Securities Depository (CSD) law and relevant amendments to the Federal law on Securities Market on 1 January 2012. The law provides for a single CSD in the Russian market that would have the exclusive right to open nominee accounts with registrars. The foreign nominee concept was also introduced into the Russian market.

On 6 November 2012 the FFMS assigned the status of central securities depository to NSD and issued the required operating license.

Settlement Processes

Settlement Process Options



Description of Settlement Processes

(1) For trades on the Main sector of MICEX SE, settlements are on a Model 3 basis, multilateral net settlement of securities and net settlement of cash across participants' accounts at NSD. The DVP is controlled by the National Clearing Centre (NCC) by instructing NSD to move securities and cash although intra-day, MICEX SE verifies that there are sufficient securities and cash in the participants' trading sub-account before trading takes place.

(2) Trades on the Standard sector of MICEX SE are cleared by NCC in two batches at 5.00pm and 7.00pm on T+4. No pre-funding is required. The asset commitment period for cash and securities is less than 30 minutes. NCC requires collateral against security price movements and margin calls are made twice a day.

(3) Simple clearing and negotiated trades (on-exchange) as well as off-exchange trades are treated as OTC settlements. No pre-funding is required for OTC settlements. Trades may be settled on a Model 1 basis with near-simultaneous gross settlement of securities and cash. Securities and cash settlement is executed in NSD. The DVP process is controlled by NSD, which checks that there are sufficient securities and cash in the participants' accounts before settlement, which takes place within 10 minutes.

Pure OTC trades may be executed outside of Moscow Exchange and settled on a free-of-payment basis (FOP) or delivery vs payment (DVP) at NSD, although the vast majority settle FOP.

(1) On-Exchange Trades (except Standard sector and Simple clearing)

The on-exchange market includes: equities, corporate bonds, government bonds and the repo market. The model used is a pre-funding market whereby Moscow Exchange requires the pre-delivery of securities to be sold in the trading sub-account of the participant. Cash also needs to be pre-funded in the trading sub-account of the broker. Participants may request a transfer of uncommitted securities from the trading sub-account to their main account or another account (including DCC-NSD Bridge transfers) 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 is on a T+0 basis using a DVP model 3 whereby securities and cash are netted.

Equities, Corporate Bonds and Government Bonds

Trading of shares, corporate bonds and OFZ Bonds (government securities) takes place via the Moscow Exchange between 9.30am and 7.00pm. 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, MICEX SE sends a trading report to NCC, the clearinghouse, and NCC in turn executes the final netting process (completed at 7.15pm) and instructs NSD to transfer the securities and cash. Settlement is completed at 7.30pm. After settlement, MICEX SE 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: MICEX SE 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+n settlement mode using margining and eliminates the pre-funding requirements.

Repo Market

Repos settle according to the type of securities involved. Accordingly, repos with equities or corporate bonds settle in a single end of day batch on a net basis. Repos with government bonds settle via one of the four intra-day settlement batches depending on the time of trading.

(2) Standard sector

Since 1 September 2012 trades executed on Standard sector are settled by NSD. The trading session operates between 10.00am and 11.50pm and covers 33 stocks settling on T+4.

MICEX provides cash settlement to NCC as the central counterparty (CCP). The latter becomes a party to the trade at the moment matched trade details are received from MICEX SE (these constitute a clearing instruction to NCC). Both securities and cash are settled in the clearing batch starting at 5.00pm. CCP requires collateral against the calculated market risk which is recalculated twice a day and margin calls may be made if required. NCC controls the DVP process, which takes around 30 minutes. Settlement takes place on a model 3 basis in two batches at 5.00pm and 7.00pm.

(3) Off-Exchange Settlements

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 (officially known as 'transfer with control of cash settlements') with gross settlement of securities and cash.

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 settlement instructions is 8.00pm. The reference of the

deal agreed by counterparties needs to be included in the instructions to NSD as the unique settlement detail.

Matching takes place automatically in NSD's system using six parameters. 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 and less than 5 minutes when securities are held in the main sub-account.

For off-exchange trades, it is NSD, which effectively controls the DVP process. Gross settlement of OTC trades takes place between 8.30am and 8.30pm every day. 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.

In case of insufficient securities and cash at the end of SD (8.40pm), NSD will cancel the trade at the end of SD.

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. In case of insufficient securities or failing of counter instruction on SD, the instructions are cancelled at the end of SD. 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 NSD's accounts at JP Morgan Chase, Clearstream, Euroclear Bank, Deutsche Bank and HSBC NY. Under the arrangement, NSD is responsible for the securities and cash transfers. Settlements are executed in a range of foreign currencies 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.

Settlement Process - Key Indicators

Transaction Type	Instrument Type	BIS Model	Clearing Provider	Settlement Period	Cash (Central Bank or Commercial bank funds)
Main Market	Equities, Corporate bonds, Government Bonds	3	NCC	T+0	Commercial bank - NSD
Standard Sector	Equities (33 stocks)	3	NCC	T+4	Commercial bank - NSD
Simple Clearing	Equities and Corporate Bonds	1	NSD	T+0	Commercial bank - NSD
Off-exchange	Equities, Corporate bonds, Government Bonds	1	NSD	T+n	Commercial bank - NSD

CSD - CSD Links

NSD has accounts with Clearstream and Euroclear bank.

A bridge set up between NSD and the Depository Clearing Company (DCC) in 1999 allows settlement through both depositories (similar to the Euroclear Bank and Clearstream Banking bridge); however, settlement through DCC-NSD Bridge will not be available from 1 November 2012 (except for Gazprom shares). DCC is the depository and settlement system for transactions in equities traded on the Russian Trading System (RTS). DCC is in a merging process with NSD following the merger of MICEX in 2011.

NSD opened nominee accounts with the Central Securities Depository of the Republic of Kazakhstan (KACD), 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, Azerbaijan and Belarus securities.

Direct settlement between participants of the two depositories occurs with no need to re-register securities immediately at the issuer's registrar. A limited number of the most liquid equities can be transferred through the bridge. (As of July 2011 there were 101 issuers eligible for bridge settlement).

The daily valuation limit of the securities that can be transferred via the NSD-DCC Bridge is USD 50 million (100 issuers under the bridge in July 2011). Re-registration is necessary for the amount exceeding the limit. NSD and DCC regularly effect mutual settlements with registrars by executing net transfers between their nominee accounts. Periodicity depends on the issue and the net sums calculated.

Participants of NSD and DCC can submit instructions for inter-depository transfers until 6.15pm and transfers are executed between 10.00am and 6.35pm.

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.

Inter-depository settlement

Different from the inter-depository settlement "Bridge", it exists an additional scheme called "On-line transfer" which allows executing settlement through the DCC's account on NSD books.

The main differences between the "On-line" and "Bridge" schemes are:

- "On-line" settlement can be executed for all securities kept simultaneously by NSD and DCC (The list of securities eligible on "Bridge" is limited);
- The "On-line" settlement is executed in real time mode upon the instructions receipt ("Bridge" settlement is done in batches every 30 minutes).

Settlement through DCC-NSD Bridge will not be available from 1 November 2012 (except for Gazprom shares). The transfer of securities between the two depositories avoiding the re-registration will be possible within the NSD through the "On-line transfer" scheme.

1.1 Summary

Securities on the Main market sector of MICEX SE (equities, government and corporate bonds, investment fund units) have a higher degree of asset commitment risk (intra-day) due to the 100% pre-funding requirement. Therefore, the asset commitment period ranges between 0.5 and 10.5 hours for both buyers and sellers. Standard trades have an asset commitment period around 30 minutes, the time to process the settlement batch. OTC transactions and large value on-exchange trades settled through the 'simple clearing' mechanism have minimal asset commitment period as settlement takes place intra-day in real-time as soon as both securities and cash are available. A large value of OTC transactions settle FOP with an asset commitment period that can exceed a day.

1.2 Asset Commitment Periods Analysis

For on-exchange trades (main market), the requirement that securities and funds must be available in specified accounts before trading implies some degree of asset commitment risk. Sellers and buyers in the Main market sector (equities, corporate and government bonds, investment fund units) have similar asset commitment periods since securities and cash are blocked effectively at the time of trading (between 9.00am and 7.00pm) and the countervalue is only received in the evening of SD (usually TD) following the completion of settlement at around 7.30pm. As a result, the asset commitment period varies between 30 minutes and 10.5 hours.

The asset commitment period is shorter for standard trades due to the two intra-day settlement batches without pre-funding. As a result, it is about 30 minutes or the duration of the batch.

Off-exchange settlements on a DVP basis and simple clearing trades 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.

1.3 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.

1.4 Finality

Securities and cash transfer become final upon settlement.

1.5 Future plans

T+3 Settlement

The Moscow Exchange announced that the T+3 model project is expected to be implemented in November 2012. The transition process of T+0 to T+3 settlement cycle is expected to initially include 35 most liquid securities.

Asset Commitment Risk - Key Indicators

Transaction type	Start of AC Period	End of AC (finality)	Asset Commitment Period	Proportion
On-exchange sales	10.00am	7.30pm	9.5hrs	42%
On-exchange purchases	9.30am	7.30pm	10hrs	42%
OTC DVP sales	8.30am	8.30pm	< 10 mins	<1%

OTC DVP purchases	8.30am	8.30pm	< 10 mins	<1%
Simple clearing sales and purchases	8.30am	7.30pm	< 10 mins	<1%
Standard Trades sales and purchases	5.00pm and 7.00pm	and 5.30pm and 7.30pm	< 30 mins	4%
FOP	8.30am	8.30pm	Undetermined	9%

Comments

-

2.1 Summary

Liquidity risk for settlements on the Main market sector is low since both securities and cash are pre-funded and immediately available for settlement on a net basis. For the trades on the Standard sector, RTS Settlement Centre acts as CCP and assures settlement by way of a guarantee fund and reverse repo of securities if necessary.

Liquidity risk for off-exchange settlements is higher since settlement completed on a gross basis and other liquidity improving mechanisms are generally absent.

2.2 Processing Models

For on-exchange settlements (main market and standard trades) 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. Pre-funding of both securities and cash, as a condition of trading, makes it effectively a fail-free environment for these trades. 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/Moscow Exchange.

In the main 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 simple clearing and OTC settlement, the movements of cash and securities occurs on a gross basis through separate systems within NSD, but is effected almost simultaneously thereby achieving a DVP model 1 environment. The DVP is controlled by NSD. Partial settlements are not possible.

BIS Model	Processing	Type of transaction	% of Trades settled (gross prior to netting)
BIS Model 3		On-exchange (Main Market and Standard Sector)	85%
BIS Model 1		Off-exchange and Simple Clearing	15%
-		-	-

2.2.1 Processing Model Description

-

Processing Models - Key Indicators

	BIS Model 1	BIS Model 2	BIS Model 3
Cash	OTC and Simple Clearing	-	On-exchange
Number of batches	-	-	2
Netting Efficiency	-	-	-
Securities	-	-	-
Number of batches	-	-	-
Netting efficiency	-	-	-
Comments	-	-	-

2.3 Fails Management

2.3.1 Fail Definition and Rate

On-exchange main market trades (cash and securities) are prefunded, which means fails are not possible in this segment. 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 FFMS and the market via their website.

The fail rate was 6.4% between 1 January and 30 September 2012.

2.3.2 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 does not settle on the due SD it will be postponed to SD+1. If it again fails to settle then it will be withdrawn and treated as a cancelled trade.

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

The trading rules of Moscow Exchange 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.

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 until the end of the day when the settlement instruction is cancelled. Compensation is arranged directly between the parties.

Fails Management - Key Indicators

Fail penalties applied:	No
Buy-in execution relative to original settlement date of trade:	No buy-ins

Settlement Rate

-

2.4 Access to Funds

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 normally cleared like any other trade with government bonds in the end of day batch. However, participants have an option to settle in real-time through the simple clearing facility.

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.

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

Access to Funds - Key Indicators

Sources of Credit

	Yes/No
Commercial banks to domestic investors	Yes
Commercial banks to foreign investors	Yes
Interbank repo market	Yes
Central bank repo	Yes
Comments	-

2.5 Securities Borrowing and Lending

2.5.1 SBL Description

Securities lending is permitted in the securities market legislation and it is practised for equities in the form of reverse repo transactions. 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.

2.5.2 Short Selling

Short selling is possible if the price does not decrease by more than 3% of the closing price of the previous trading day.

Securities Borrowing and Lending - Key Indicators

Securities lending permitted in the market:	No
Short Selling permitted in the market:	Yes, with restrictions
Purpose of SBL:	N/A
Providers of SBL:	N/A
Minimum Settlement cycle of SBL:	N/A
Comments	-

2.6 Registration Period

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. Equities are registered in the nominee name of NSD with the respective registrars.

As at October 2012, NSD had nominee accounts with 40 Registries. NSD had EDI links established with 37 of the 40 registrars, reducing the re-registration time to between one and two business days. The average re-registration time is two days. At the end of the year around 98% of operations with registrars were performed using EDI. Non-resident holders must maintain accounts in the beneficial owner's name and not via a nominee, therefore foreign custodians have no right to open a nominee account in their name with NSD. However, new regulation is coming into force and FFMS has published a Draft Order detailing the list of foreign institutions that will be allowed to open nominee accounts with the Russian CSD. The draft order allows ICSDs to open nominee accounts with the Russian CSD only for the safekeeping of securities issued by the Russian Government, municipal authorities and foreign issuers; and this restriction will be valid until 1 July 2014.

Now that NSD has become the CSD in Russia, it will be required to open accounts at all registrars and only accept securities that have been registered through a Register. 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 FFMS has imposed rules for registrars, which include strict requirements for data back-up and recovery and high minimum capital requirements. These rules should further encourage electronic automation and improve the general registration process.

Registration Period - Key Indicators

Securities are blocked during registration:	No
Period of blocking during registration:	N/A
Period of time to deposit:	-
Period of time to transfer ownership:	Up to 5 days
Number of registrars in the market:	40
Comments	-

2.7 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.

NSD holds an account at Gazprom registrar SR DRAGa and depositories: Settlement Depository Centre (SDC) and Gazprombank in order to support the trade of Gazprom shares. Given that trading of Gazprom shares is now concentrated in MICEX, liquidity of the shares is not split among different exchanges. SDC and Gazprombank charge different re-registration fees to transfer securities from NSD accounts at those depositories to NSD's nominee account with the registrar.

The value of securities on deposit at NSD at 1 October 2012 was RUB 9.30 trillion (USD 298 million).

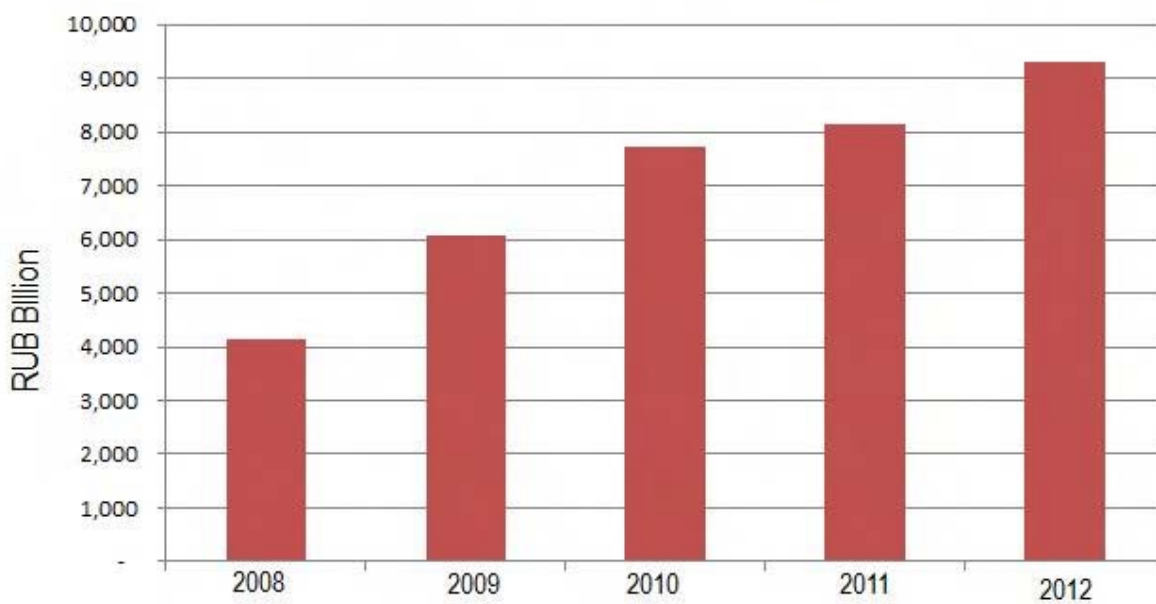
Liquidity risk is impacted by the blocking of shares during the lodging of a buy-back by an issuer, custodians and registrars. The rules state that if the issuer fails to buy-back the shares from the shareholder, the custodian and registrar are permitted to unblock the shares upon expiration of 75 calendar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

Deposited Securities - Key Indicators

Securities Under Custody



	2008	2009	2010	2011	2012
Total Value of Securities under custody (in local currency)	4130	6086	7718	8139	9302

All figures (RUB billion)

Equities

	2008	2009	2010	2011	2012
Lines of Equities	-	2,896	3,268	-	-
Value held at CSD	RUB 777.8 billion	RUB 1,250 billion	RUB 1,750.5 billion	RUB 1,568 billion	RUB 2,215 billion
% of Domestic Market in CSD	-	-	-	-	-
Comments	2012 figures at September Lines of equities plus bonds				

Fixed Income Securities

	2008	2009	2010	2011	2012
Lines	-	-	-	-	-
Value held at CSD	RUB 2,317 billion	RUB 3,282 billion	-	RUB 3,280 billion	RUB 3,369 billion
% of Domestic Market in CSD	99%	99%	99%	99%	99%
Comments	2012 figures at 30 September				

Money Market Instruments

	2008	2009	2010	2011	2012
Lines	N/A	N/A	N/A	N/A	N/A
Value held at CSD	N/A	N/A	N/A	N/A	N/A
% of Domestic Market in CSD	N/A	N/A	N/A	N/A	N/A
Comments	-				

How Securites Are Held

Equities	Dematerialised
Corporate Debt	Dematerialised
Government Debt	Dematerialised
Money Markets	Dematerialised
Other Instruments	-

2.8 Settlement Matching

2.8.1 On-Exchange Matching

Matching of on-exchange trades takes place through Moscow Exchange's trading matching system. Trades are then locked in and net positions are transferred to NSD prior to the settlement batch at 7.00pm.

2.8.2 OTC Matching

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 settlement instructions is 8.00pm. The reference of the deal agreed by counterparties needs to be included in the instructions to NSD as the unique settlement detail.

Matching takes place automatically in NSD's system using six parameters. For FOP settlements, instructions must be received from the deliverer and receiver in order to be processed.

2.9 Future Plans

A T+2 settlement cycle is planned to be introduced by Moscow exchange to replace the existing pre-funded model.

3.1 Summary

Counterparty risk between participants is reduced by the pre-funding requirements before trading for on-exchange transactions and the integrated DVP arrangements. Accordingly brokers are exposed counterparty risk against NSD, which manages the cash and securities accounts.

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 respective regulator – Bank of Russia and FFMS.

3.2 Participation 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. Foreign participants are not eligible to open nominee accounts in Russia but 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 September 2011, there were 2,834 depository accounts open in NSD, for 952 participants.

NSD does not impose any participation criteria except for the requirement for participants to be licensed by the FFMS 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.

FFMS set the following capital requirements for professional securities market participants:

- 1) for brokers, dealers and asset managers — RUB 35 million (USD 1.1 million);
- 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).

Bank of Russia has proposed to increase the minimum 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.

Participants in the government debt market must hold the status of dealer from the Bank of Russia. If such status is taken away from the participant and the dealer agreement with the Bank of Russia is cancelled, NSD is obliged to cancel its agreement for the provision of technical services to the participants sub-depository which effectively constrains the operation of the participant's state federal bond sub-account.

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.

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 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.

Participation Criteria - Key Indicators

	Number	Minimum Capital Requirement	Regulator
Brokers	-	RUB 35 million	FFMS
Banks/Custodians	-	Eur 5 million (banks) RUB 60 million (custodians)	CBR / FFMS
NBFIs	-	RUB 80 million (specialised depositories) RUB 250 million (settlement depositories)	FFMS
Other	-	RUB 100 million (registrars) RUB 150 million (stock exchanges)	FFMS

3.3 Participant Surveillance and Oversight (CSD & Regulator)

3.3.1 General Monitoring (Regulator/Stock Exchange/Others)

The FFMS monitors non-bank minimum capital requirements through a quarterly reporting regime. MICEX also monitors participants' compliance with its regulations and rules through quarterly returns that include financial and trading information. FFMS also outsource the audit process to PARTAD and NAUFOR (a self-regulatory organisation), which executes preliminary audits on behalf of FFMS 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.

3.3.2 Monitoring by the CSD

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 are supervised by the Bank of Russia.

3.3.3 Clearing/Settlement Exposure Monitoring

For on-exchange trades (main market), Moscow Exchange monitors that brokers always have sufficient securities and funds in place to be able to execute the trade. This is part of the 100% pre-funding requirement used by Moscow Exchange.

3.4 Participant Concentration

Market is quite highly concentrated by value with the top participant (excluding DCC and CBR) accounting for 20% of market activity and the top 10% of participants accounting for 86% of market activity.

Participant Concentration - Key Indicators

% by value	% by volume
20% (largest participant)	4% (largest participant)
86% (top 10% participants)	73% (top 10% participants)
-	

3.5 Delivery Versus Payment

3.5.1 DVP Settlement

For on-exchange trades, NCC controls the DVP process by instructing NSD to transfer the relevant securities and cash, which have been previously checked and blocked by Moscow Exchange. The DVP process takes place on a simultaneous basis between 7.15pm 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.

3.5.2 FOP Settlement

OTC trades can settle on a DVP or FOP basis. However, currently the vast majority (99%) settle on an FOP basis.

DVP - Key Indicators

	DVP	Managed by
OTC	Simultaneous	NSD
Simple Clearing	Simultaneous	NSD
Standard Trades	Simultaneous	NCC

3.6 Cash Exposure

Participants are exposed to NSD when holding cash accounts.

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, which mitigates exposure to NSD.

NSD does not have a credit rating at the moment.

3.7 Central Counterparty (CCP) Risk Containment Model

3.7.1 CSD Acting as CCP

NSD does not act as central counterparty in the Russian market.

3.7.2 Other Entities Acting as CCP

The National Clearing Centre (NCC) is the central counterparty for MICEX-RTS FX transactions. NCC also acts as clearinghouse for equities and corporate bonds transactions executed on Moscow Exchange. It is also to act as CCP for on-exchange equities and bonds traded on Moscow Exchange following the introduction of a T+n settlement model.

NCC is licensed by the Federal Financial Markets Service (FFMS) 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 and MICEX owns a 100% stake in NCC.

The President has signed the law on clearing and clearing activities, which 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.

CCP Risk Containment Model - Key Indicators

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CCP:	NCC (FX) RTS Clearing (equities)
Novation / Open Offer:	Yes
Novation / Open Offer Timing:	-
Timing of Margin Calls:	-
Stress Testing:	-
Stress Testing Frequency:	-
Comments	-

3.8 Settlement Guarantees

3.8.1 Coverage

The size of NCC's participants' fund at October 2012 was RUB 1.5 billion (USD 49 million) for the currency market and Moscow Exchange's Reserve fund was RUB 1.5 billion (USD 49 million) for the derivatives market.

3.8.2 Characteristics

Moscow Exchange manages and operates a small guarantee fund which is funded by clearing participants and the exchange in accordance with Decree No 32 issued by FCSM (now FFMS). The guarantee fund consists of cash and Russian government securities.

3.8.3 Analysis

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Settlement Guarantees - Key Indicators

Name of Fund	Managed by	Coverage	Value
Participants' Fund	NCC	Currency market	RUB 1.5 billion (October 2012)
Reserve Fund	Moscow Exchange	Derivatives market	RUB 1.5 billion (October 2012)
-	-	-	-

Comments

-

3.9 Future plans

NSD is to launch new DVP settlement processes for OTC trades known as DVP1, DVP2 and DVP3 in domestic and foreign currency.

4.1 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.

4.2 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.

4.3 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).

Under 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.

4.4 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 October 2011, 99.62% of securities at NSD are 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.

4.5 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.

4.6 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.

4.7 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.

4.8 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 - Key Indicators

Segregation by Law / Regulation:	No
Nominee concept recognised:	Yes
Frequency of reconciliation with participants:	Daily
Liens asserted by CSD:	Yes - only in the case of unpaid fees
CSD holds cash deposits:	Yes

4.9 Future Plans

The foreign nominee concept has been allowed under Russian law from 1 July 2012. As a result, NSD is working on opening nominee accounts for foreign participants.

5.1 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. 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.

5.2 Corporate Actions Supported

Mandatory Events	Voluntary Corporate Actions
Yes	Yes

5.3 Information Collection

5.3.1 Mandatory and Voluntary Events

There is no central source of corporate actions information in the market. 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 Securites: NSD receives official information for foreign securities from global custodians.
- For all other securities, NSD either: (i) receives information direct from Registrars which are required by law to provide Information to NSD via EDI (LUCH). (EDI does use some standard message formats for corporate actions but to date there have been no electronic interfaces built into the system.); or (ii) seek information from issuers directly if they do not have an appointed registrar. Around 95% of information is delivered direct from 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 - FFMS, company news and websites of issuers. Issuers provide information to NSD mostly by email, and in some cases by fax or mail. NSD has to manually and actively double check information from different sources with the risk of missing an event or a delay in the receipt of information.

Under the new CSD law, NSD will only hold securities where the issuer has appointed a registry to act as registrar. This will ensure all information is compulsorily provided by registries through EDI and should improve efficiency and reliability of information collection.

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, FFMS and websites of issuers.

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. From registrars, 50% via EDI and 50% via email. From issuers, mostly (90%) is received via email. 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.

5.4 Information Dissemination

5.4.1 Mandatory Events

NSD notifies participants about corporate actions relevant to them on the day of receipt (DOR) or on DOR+1 at the latest. The majority of information is distributed on the same day and 1-2% is distributed next day particularly when a second check for issuer provided data is required. Occurrences of late notification are monitored.

Information is checked by a manager prior to being released.

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 has launched a fee based service through the Depository Information Service Centre (DISC). DISC provides a historical repository of corporate action events and related information that participants can electronically interrogate.

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

5.4.2 Voluntary Events

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.

Information Processing- Key Indicators

Central Source of Information:	No
CSD takes liability for Information Collection:	Yes
Issuers obliged to inform CSD of corporate action:	Yes
Information sources used by CSD	Issuers and registrars
Information from issuers cross-checked with other sources:	Yes
Mode of Information Collection by CSD	Letter
Information is provided in English:	No
CSD Notification Period of Corporate Actions	99% Same day
Mode of Information Dissemination/Notification by CSD	Proprietary system, website
CSD takes liability for Information Dissemination:	Yes
Comments	-

5.5 Receipt of Voluntary Event 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.

Instructions (99.9%) 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.

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.

5.6 Execution of Corporate Actions

5.6.1 Mandatory and Voluntary Events

NSD acts as central paying agent for Bank of Russia bonds, most municipal and sub-federal bonds except Moscow bonds and most corporate bonds with centralised safekeeping at NSD. The central paying agent for government bonds is Bank of Russia. For equities, NSD does not act as central paying agent, but as a nominee account holder. It will distribute income received from the issuer or its paying agent to the relevant participants' accounts. In 2010, NSD as a paying agent distributed payment for 121 new bond issues of 76 issuers and 300 bond issues of 170 issuers.

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.

There is no specific payment date for equities in Russia, but rather a payment period when issuers distribute dividend payments which can take several days or weeks. NSD distributes dividends to participants' bank accounts (or nominated accounts), normally on PD but not later than on the next business day, which is permitted in the regulation.

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.

During 2010, NSD handled dividend, coupon and principal payments to the value of RUB 1.348 trillion (USD 46 billion), to the

end of September 2011, this value was RUB 1.308 trillion (USD 44.41 million)).

Instruction Processing - Key Indicators

Role of CSD

Mode of Receipt of Instruction by CSD	Proprietary
CSD Allows Cancellation/Amendment of Instruction	Yes
Calculates securities entitlements:	Yes
Calculates cash entitlements	Yes

Paying Agent Role

Equities	No
Fixed Income	Yes
Percentage of cash entitlements paid on pay date in the last full year	There is no pay date
CSD takes liability for Event Execution	Yes
Mode of Confirmation of Execution by CSD	Proprietary
Comments	-

Corporate Actions - Key Indicators

Mandatory Corporate Action			Voluntary Corporate Action		
	2011	2012		2011	2012
Dividend Payment	RUR18.9 bn	RUR23.2 bn (year to 19 Nov 2012)	Rights Issues	1,409	2,732 (to 30 Nov 2012)
Interest Payment	RUR137.7 bn	RUR291.7 bn (year to 19 Nov 2012)	Merger/De-merger	186	173 (to 30 Nov 2012)
Redemption	RUR78.5 bn	RUR422.3 bn (year to 19 nov 2012)	Etc...	142	161 (to 30 Nov 2012) incls pre-emption rights, and other corporate actions

5.7 Proxy Voting and Other Services

NSD offers a proxy voting service, although it is not commonly used by participants. 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.

Other Services

NSD does not provide any tax services, but NSD does provide information services (e.g checks that relevant documentation is in place to qualify for DTT rate, etc) for participants free of charge. According to the Russian legislation, the issuer acts as tax agent for securities income. The issuer is responsible for calculating the relevant tax for investors and the paying agent receives the net amount. In order to determine the net amount NSD keeps a copy of documents for tax calculation purposes sent by participants and forwarded to the issuer/registrar. It is the participants' responsibility to provide the documentation for tax calculation purposes. NSD will pass these documents to the issuer, which makes the decision whether the information is sufficient to apply a reduced rate.

However, there is a new regulation on the procedures of income distribution for securities (most corporate bonds and all government bonds issued in the Russian market) that are subject to mandatory centralised safekeeping. The amendments prescribe that the depositories / custodians may only act as tax agent for income of foreign organisations on securities with centralised safekeeping, but not for funds received from the redemption of such securities of individuals. In addition, the regulation also simplifies the tax relief and reclaim procedures by market participants, by allowing them to only provide one set of documents to the depositories, instead of submitting a separate set of documents to each issuer for each income payment. The amendments took effect on 1 January 2012.

NSD does not take any liability in the respect of authenticity and completeness of the documents received from the participant but takes responsibility for their timely transfer.

Proxy Voting and Other Services - Key Indicators

Proxy Voting Provided by CSD	Yes
Electronic Voting Supplied by CSD	No
Proxy Voting Provided by CSD but Outsourced to Third Party	No
CSD Announces Meeting Details	-
Elections (Voting)	Yes

6.1 Summary

NSD had a net equity of RUB 5.64 billion (approximately USD 179.48 million) as at 1 October 2012, 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 about half of fee income is from safekeeping fees of fixed income securities. However, a significant proportion of revenues 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 become a trade repository, new BCP equipment and other IT projects as a result of the integration with DCC.

Liabilities - Key Indicators

General

Gross Negligence, Omissions	Yes
Wilful Misconduct	Yes
Errors	Yes
Fraud	Yes
Force Majeure, political events	No
Theft of securities	Yes
Outsourced operations	No
System Breakdown	No
Consequential Losses	Yes
Other businesses*	No

Asset Servicing

Accuracy and timeliness of information	Yes
Accuracy and timeliness of CAs execution	Yes
Collection of information from third party	No

CCP

CCP is the CSD	No
CSD owns the CCP	No, but in same Group.

Lending

Securities lending	No
Cash lending	No

6.2 Analysis of Liabilities

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

NSD's liability also includes errors committed by third parties, which provide a service to NSD or to whom NSD outsources some services, in the event they cause a loss to an NSD participant 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.

6.3 Ownership & Access to Capital

Financial Risk - Key indicators

Ownership of the CSD			
	Number - Domestic	Number - Foreign	Percentage
Stock Exchange	1	-	99.997 %
Banks	19	-	less than 0.01% each
Brokers	9	-	less than 0.01% each
Registrars	5	-	less than 0.01% each
others	3	-	less than 0.01% each
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-

6.4 Capital Structure and Liquid Assets

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 both in Russian (RAS - as required by law), as well as according to international standards (International Financial Reporting Standards (IFRS)).

NSD's total equity calculated on IFRS amounted to RUB 6,202 million (USD 192.4 million) as at 31 December 2011 compared to 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 is mainly due to a reduction in retained earnings in dividend payments. The increase in capital from 2009 and 2010 is a result of the merger with MICEX Settlement House, which became effective on 3 November 2010. The value of NSD's equity is expected to raise as a result of the merger with DCC during 2012.

NSD's equity at the end of 2011 was composed 14% of share capital (RUB 1,193.98 million); 24% of share premium (RUB 1,957.05 million) and 61% of retained earnings (RUB 3,051 million).

NSD has a stake in other depositories such as the Settlement Depository Company (SDC) due to the contribution of new partners (commercial banks) via transferring their holding in the depositories. However, this is not included as an increase in capital, but

rather as a current liability since they are required to pay back the contribution to their partners if they withdraw from the partnership. NSD is also in the process of acquiring DCC as a result of the merger between MICEX and RTS.

Following the MICEX-RTS Group restructuring in 2010 and the merger between NDC and the MICEX Settlement House, Moscow Exchange now owns 99.96% of NSD. The remaining shareholding is owned by banks, brokers/dealers and other exchanges.

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 FFMS (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.

The law on the CSD has been approved and became effective from 1 January 2012. As a result, NSD is expected to become the sole CSD in the market. The procedure to determine the fees under the new scheme has been approved and must be submitted for approval to the FFMS prior to its accreditation as a CSD.

Moscow Exchange owns 99.997% of NSD while 37 other minority shareholders jointly own 0.003% stake in NSD.

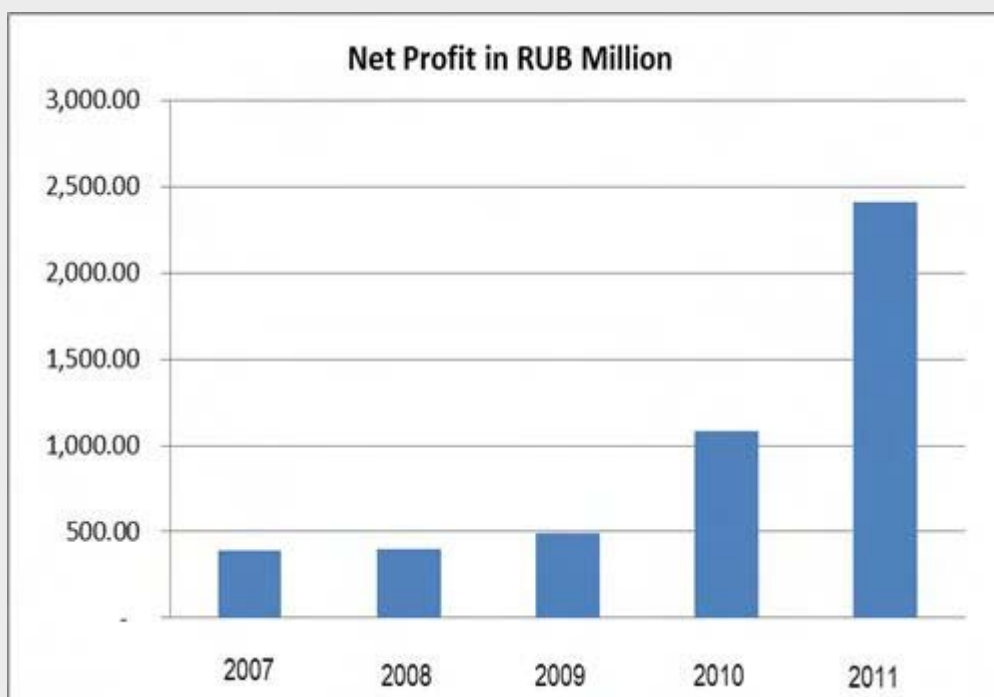
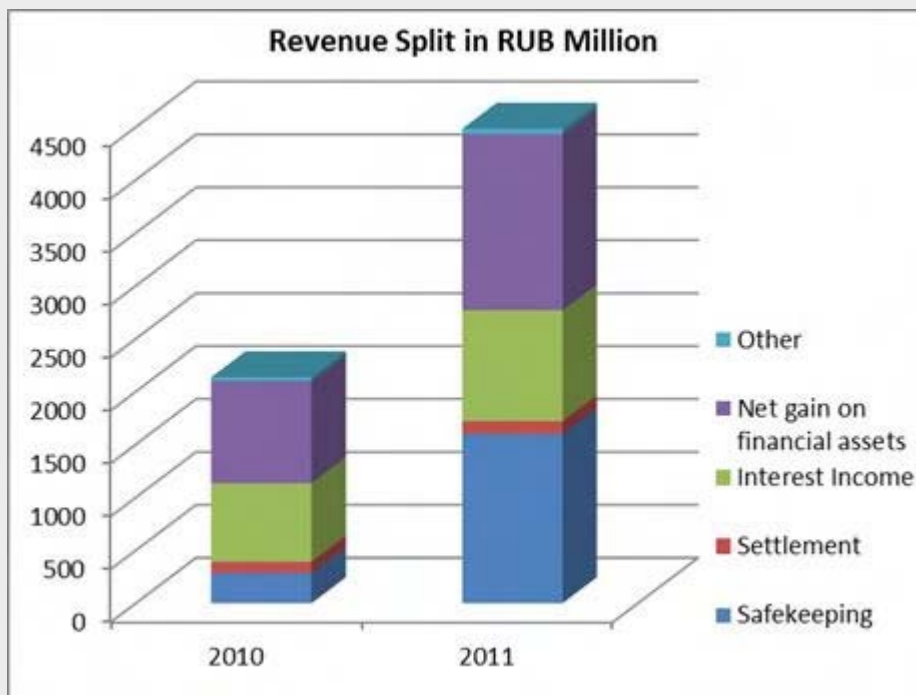
Capital Structure and Liquid Assets - Key Indicators

	Capital Structure (Local Currency)
Issued capital	1.193 (RUB billion)
Surplus	1.957 (RUB billion)
Reserves	-
Retained earnings	3.051 (RUB billion)
Total	6.202 (RUB billion)

Capital Structure Comments

Statistics as of 31 December 2011 in International Financial Reporting Standards

6.5 Earnings Performance



Operating Revenue Breakdown

	2011
Settlement	2.67%
Custody	35.69%
Registration	-
Others	61.64%
Comments/Footnotes	Over 50% of NSD's revenues come from income on investment (net gain on financial assets and interest income)

6.5.1 Earnings Analysis/Overview

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. Its net profit for 1Q 2012 grew 57.1% against 1Q 2011, reached RUB 963.05 million (USD 32.70 million) according to Russian Accounting Standards (RAS).

Based on International Financial Reporting Standards (IFRS), Net profit of NSD for 2011 was RUB 2.41 billion (USD 75.03 million) in 2011 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 2011 was RUB 4.48 billion (USD 139.68 million) a significant increase from RUB 2.137 billion (USD 69.97 million) reported in 2010 (RUB 1.40 billion for 2009 (USD 46 million) and RUB 1.29 billion for 2008 (USD 43 million)).

NSD's shareholders made a decision to distribute the company's net profit for 2011 as follows: RUB 138.85 million (USD 4.54 million) are to be allocated for the formation of the company's reserve fund, and RUB 892.87 million (USD 29.24 million) are to be paid out to shareholders as dividend.

NSD participants' cash accounts turnover and securities turnover (the market value of securities transferred in inventory operations) for 2011 reached RUB 239.6 trillion and RUB 95.9 trillion, respectively. It is 37.4% and 41.5% more than for 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, 54% of total income is generated from interest on investments (both from participants' and proprietary funds). 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.

6.6 Access to Credit / Liquidity

6.6.1 Credit Lines

NSD has an uncommitted credit line with Unicredit Bank worth USD 10 million. NSD also 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 approved credits from Bank of Russia with limits for intra-day and overnight – RUB 1,992 million (USD 68 million); and limits for overdraft – RUB 5,395 million (USD 168 million), which is collateralised with the securities that NSD holds at the Central Bank of Russia.

6.6.2 Others

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CSD has committed lines of credit:	No
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6.7 Insurance

NSD holds a regular comprehensive crime and professional liability policy from Ingosstakh Insurance Co. The limit of indemnity is USD 65 million for 2013 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 loses 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
- 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.

CSD has insurance cover:	USD 65 million
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6.8 Other Business Risks and Future Investments

NSD has some investments in the short term including:

- In order to complete the integration of NSD and DCC, IT has launched projects that include -- investment in software development, new system hardware and development of a single client interface platform. A budget has yet to be finalised. Investment in the production of new information services, approximately USD 1 million.
- Investment in new equipment to improve the reliability of systems operating activities, about USD 4 million.
- USD 1 million to be spent on BCP equipment.
- USD 6.5 million in developing a derivatives repository.

7.1 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; no operational audit had been undertaken on NSD since the integration of NDC and MICEX SH, although a pre-audit was undertaken by KPMG in October 2011. NSD has continued to automate operational processes through use of its EDI system.

NSD is also reviewing its business continuity arrangements to incorporate changes that came about with the merger with MICEX SH. It maintains a near hot back-up facility at Kislovskiy and a warm site at Warszawska. The procedures were partially tested in December 2011, and are awaiting finalisation.

7.2 Identification of Risk and Key Controls

7.2.1 Risk Management

A Risk Management Department has been established that oversees the management of risk within NSD. It consists of 5 staff. In September 2012 the external auditors undertook an audit on the risk management system and as a result a new roadmap was developed that provided the basis for the development of the risk management function within NSD.

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 Supervisor Board Audit Committee, and participate in the Change Committee, Incident Management Committee and the MICEX Group Operation. They also report through to the Executive Board.

7.2.2 Key Controls

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, although SWIFT is not used to a significant extent. 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.

7.2.3 Physical/Building/Access Security

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.

7.3 Established Documented Procedures

7.3.1 Scope

There are established documented procedures in place for most operational activities. Staff are trained with reference to the procedures.

7.3.2 Form

Procedures are documented in detail and include the use of process diagrams.

7.3.3 Oversight

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 review and 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.

7.4 Operational Audit

7.4.1 Internal Audit

The Internal Control is comprised of two departments, one covering operations of NSD as a professional participant in the securities market and another in charge of NSD's activities as a credit institution. The team, which now numbers 8 staff, has specialists in information technology, money laundering and operations. Business continuity and disaster recovery are covered as well.

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. A special report tracking the progress of any recommendation is also submitted to the CEO and the Supervisory Board, whom Internal Control report to.

Internal control is engaged in the review of identified operational errors and error mitigation process and procedure change.

In early 2011, NSD had to undergo a self-audit (with an external company) on information security to comply with Bank of Russia regulations. Ethical hacking is performed by Moscow Exchange.

7.4.2 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.

NSD also undertook an audit on its risk management system in September 2012 and an audit on the information it had provided FFMS as part of its application for a license in October 2012. It previously had undertaken an information security audit in December 2011.

7.4.3 Other Audits / Reviews

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Operational Audit - Key Indicators

Risk Committee/Manager /Department exists:	Yes
Internal Operational Audit:	Yes
Internal Operational Audit Coverage:	All areas
External Operational Audit Frequency:	Annual
External Operational Auditor Firm:	KPMG
External Operational Audit Coverage:	ISAE 3402 Type 1
Comments	The type 1 audit reviews the control environment but does not check on controls. This is undertaken in a type 2 audit.

7.5 IT Operations

7.5.1 Systems Software / Database

NSD's securities depository system, Alameda, is based on the Oracle platform and is supported inhouse. 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.

7.5.2 Systems Hardware

System hardware is maintained by MICEX through an outsource agreement. System unavailability occurred once (for 60 minutes) in the last 12 months.

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.

7.5.3 Network with Participants

Bank of Russia and participants have access to the NSD proprietary system. The network is maintained by MICEX through an outsource agreement. MMICEX 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.

7.5.4 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.

IT Operations - Key Indicators

Name of System:	Alameda
Annual System uptime (%):	99%
CSD has back-up power generator at main site:	Yes
CSD has uninterruptible power supply (UPS):	Yes
Use multiple network providers:	Yes
Penetration Testing undertaken < 24 months:	Yes

7.6 Processing

7.6.1 System Automation

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

7.6.2 Straight-Through-Processing

here is straight trough processing between th e 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

NSD utilises SWIFT messages for settlement (security and payment instruction and confirmation), reconciliation, customer payments, cash management and financial institution transfers. Selected SWIFT messages are available for corporate actions but this does not appear to be widely used due to limitations on functionality. Major participants are SWIFT-enabled. However, EDI does not readily support an interface with SWIFT.

37 out of 40 registrars are now electronically linked to NSD via LUCH. However, LUCH is not linked to the NSD system to allow for corporate actions information to be entered seamlessly so manual input of CA information into the NSD system is still required.

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.

Processing - Key Indicators

Number of Employees	46
Types of Messages Used	SWIFT MT1+, 2+, 9+ EDI BESP (Bank of Russia payment system)
Proprietary	-
SWIFT-format	-
SWIFT	-
SWIFT messages used for	
Settlement	Yes
Reporting	Yes

7.7 Reporting

7.7.1 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.

7.7.2 Historical Information

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

Reporting - Key Indicators

Activity report available to participants online:	Yes
CSD sends settlement/entitlement confirmation:	Yes
Types of Report Available	
CSD sends settlement/entitlement confirmation:	-
Settlement Report	Yes
Securities Borrowing and Lending Report	No
Custody Report	Yes

7.8 Disaster Recovery Procedures

7.8.1 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.

7.8.2 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 Kislovkiy 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 19 critical NSD staff on the day of operational disruptions, with provisions to add another 19 the following day. Business continuity plans indicate that this number could be extended to a total of 120 members of 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.

7.8.3 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. A partial business continuity / disaster recovery test was conducted in December 2011 which included only the depository and settlement processes. This involved 42 employees of NSD evacuating the production site and relocating and operating from the Kislowkiy site. The exercise included the restoration of data from the main data system to the back-up system at Kislowkiy, and using these to perform depository and settlement exercises. Four major participants, 3 banks and DCC, joined the test. There were no significant findings and the test was regarded as successful. The official report was approved by the Executive Board and the CEO.

The last test was conducted in March 2012 and there was also a test of the new settlement system functionality from the DR system which included 50 participants in the test.

NSD is considering planning to undertake a live DR test in the future.

During the first half of 2012 NSD conducted five large scale stress tests, the last one held in June including the bridge with DCC, their proprietary system LUCH, communication with Moscow Exchange, blocking of account and end of day reports. It is not known if the BCP / DRP tests were audited.

7.9 Business Continuity Procedures

7.9.1 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.

NSD has a plan to acquire new BCP premises and to enhance its BCP processing capacity.-

7.9.2 Business Continuity Site Details

The primary data site acts as the business continuity site.

There are immediate provisions for 15 NSD staff members, with a further 19 provided for within 2 hours. Provisions for up to 60 additional staff members can be arranged the following day. NSD staff can work at the BC site for up to 6 months.

Staff working from home is not a BCP option for NSD.

7.9.3 Business Continuity Procedures Test and Audit

The NSD 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. Staff arrangements may still not be properly disseminated to staff members due to incomplete BC procedures. The last BCP test was a live test.

Disaster Recovery / Business Continuity - Key Indicators

Disaster Recovery

Disaster Recovery Site	1. Kislowkiy (main data site) 2. Warszawska (back-up site)
Distance from main site	1. 6 km 2. 15 km
DRP Testing	1. Yes - December 2011
Frequency of Tests	-
DRP Audit	-

Business Continuity

Disaster Recovery Site	-
Distance from main site	-
BCP Testing	-
Frequency of Tests	-
BCP Audit	-

7.10 Human Resources

7.10.1 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 corporate course training which provides a course on corporate values and policies.

There is also a short introductory course for new employees that covers confidential information, insider information, risk management and information security.

7.10.2 Policies

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.

Human Resources - Key Indicators

Staff Turnover:	-
Budget / Actual Spending Ratio:	99%

8.1 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 attends all meetings.

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 controller 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.

There is a Code of Conduct that establishes management standards and NSD has established a performance management system based on the achievement of measurable objectives which are reviewed by the Remuneration and Nomination Committee. The performance of managers is assessed on an annual basis and remuneration increases are set against achieving the specified performance standards.

The link between NSD and its participants has been enhanced in recent years by the establishment of four user groups. There are regular meetings of the user groups at which NSD employees and other experts are invited to attend.

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.

8.2 Board arrangements

8.2.1 Board Structure

NSD has established a Supervisory Board composed of 15 seats: 6 from MICEX, 1 from MICEX Management Board, 1 from CBR, 1 independent director, 5 representatives of service users and the CEO of NSD.

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

In addition to the Supervisory Board, there are committees involving participants who are in charge of settlement and depository development, quality and tariffs, and the relationship with registrars and special depositories.

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

8.2.2 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.

8.2.3 Board Relationships

MICEX 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.

8.3 Establishment of risk management

8.3.1 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.

8.3.2 Committee Performance

NSD formed a Risk Management department which is working on defining the risk profile of the company in its roles as a settlement depository and cash settlement agent. The output of the RM department has yet to be finalised as at November 2012.

8.4 Management Performance

8.4.1 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.

8.4.2 Management Communication

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

8.5 User Group Arrangements

8.5.1 User Group Structures

There are four user groups:

- CSD Service Users Committee
- Quality and Risks Committee
- Settlement Depository Activity and Tariffs Committee
- Cooperation with Registrars and Depositories Committee.

8.5.2 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.

8.6 Disclosure of Corporate Information

8.6.1 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.

8.6.2 Response to Regulatory Information Requirements

NSD was required to provide an extensive amount of information on its activities to FFMS as a part of its license application. This information was subject to an audit by FFMS in October 2012.

8.7 Disclosure of Statistical Information

8.7.1 Statistical Information Management

The NSD website has monthly statistical information relating to:

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

8.7.2 Data Mining Capability

There is a lack of statistical data available on settlements, fail rates, netting rates etc that indicates a low level of capability to obtain statistical information.

General Key Indicators

National Settlement Depository

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: 13, bld. 1, Mashkova St., Moscow
105062, Russia
New Customer service address (effective 2 April 2012): 12
Spartakovskaya st., Moscow, Russia.

Website

www.nsd.ru

Is use of the CSD required?

	Settlement	Safekeeping
By Law	No	Yes
By Market Practice	Yes	Yes

Domestic eligible participants

Stock Exchange, Central Bank, banks and brokers.

As at 1 June 2011, there were 952.

Foreign eligible participants

8

Ownership

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

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

Comments

None for OTC

Cash Settlement

Segregation of Assets at the Depository

Depository assets from participants

Yes

Participant assets from clients

Yes

Participant Eligibility Criteria

Minimum Capital Standards

Yes

Comments

Established for banks by the Bank of Russia and for brokers by the FFMS of Russia.

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

No

Other third party guarantee

No

Third party insurance

Yes

Safeguard Facilities

Offsite Backup

Yes

Internal cash settlement

Yes

Stock Lending

Securities lending for fails coverage

No

Comments

Reverse repos are used for borrowing bonds.

Asset Servicing

Notifications

Yes

Securities processing

Yes

Paying agent

Yes

Central registrar

Yes

Proxy voting services

Yes

Comments

Paying agent and registrar for certain bonds only

Communications

Electronic communications

Yes

Comments

SWIFT is available but is not widely utilised.

Reporting Services

Electronic reporting

Yes

Reporting of every movement

Yes

<p>Comments At DRP facility</p>	<p>Regular statement of securities deposited Yes</p>
<p><i>Disaster Recovery</i></p>	
<p>Disaster Recovery Plan Yes</p>	
<p>Back-up power generator Yes</p>	
<p>UPS (Uninterruptible power supply) Yes</p>	
<p>Comments DRP shared with Moscow Exchange</p>	

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.

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.

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 and Transparency - *The risk that a participant may incur a loss arising from the depository not acting according to its rules and regulations or not providing full and accurate information on its activities and the activities of the market.* This risk arises when a participant places reliance on the depository to act in a fit and proper manner according to its rules and regulations and to provide full and accurate disclosure of information about itself and the depository and settlement activities of the market. There is an obligation on the management and the directors to ensure that the depository is operated according to high international management standards which includes ensuring that information and data relating to its activities and the activities of the market it represents are freely available to participants and the public in a timely manner. If the depository fails either to provide full and accurate information or to strictly abide by its own rules and regulations, then the participant and public may be misled and may suffer a loss for which the depository may not accept liability.

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

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This report is updated as and when new and additional information becomes available. A full annual review exercise is also conducted with the assistance of support banks and the depository itself. The latest full review was performed on (Month/Year).