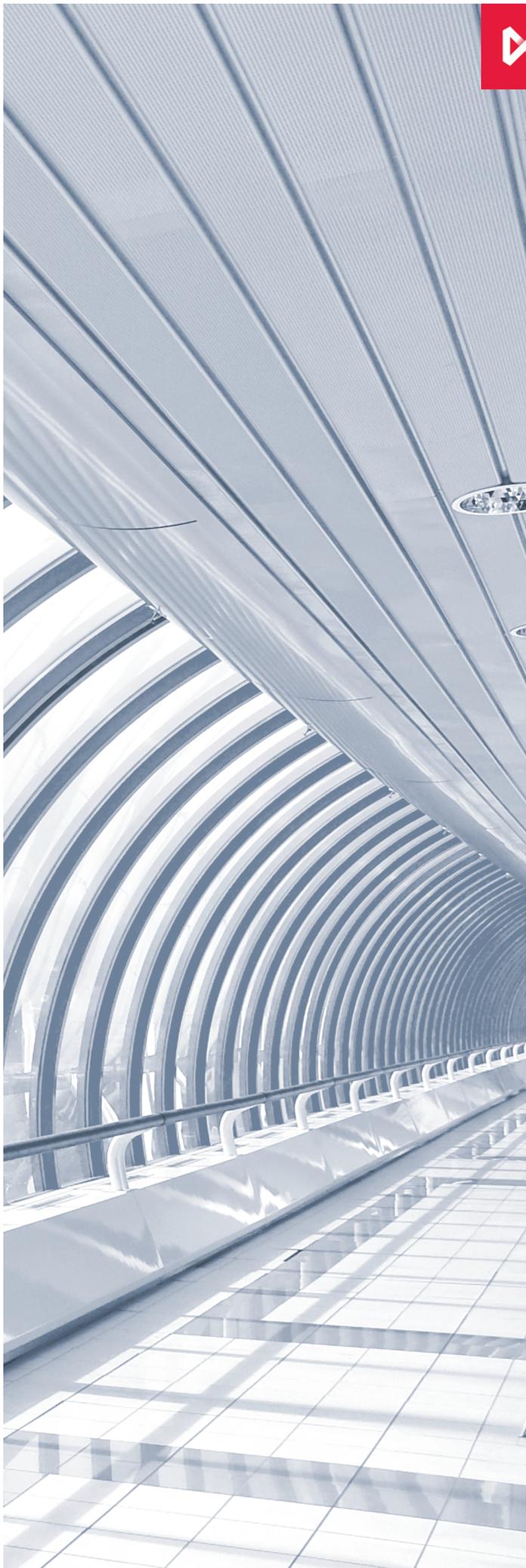




**NATIONAL
SETTLEMENT
DEPOSITORY**
MOSCOW EXCHANGE GROUP



ANNUAL REPORT

of National Settlement Depository

2013



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ADDRESS BY THE CHAIRPERSON OF THE SUPERVISORY BOARD



BELLA ZLATKIS

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

Dear Colleagues,

With the advent of the central securities depository (CSD) in the Russian market, the market infrastructure in Russia has been at the very heart of major changes. During NSD's first year of operation as a CSD, the entire recordkeeping and safekeeping system was affected by changes relating to the concentration of assets and corporate information in the CSD, acceleration and higher cost-efficiency of the transaction settlement process, opening of foreign nominee accounts, and product and service diversification.

Throughout all stages of NSD operating as a CSD, the Supervisory Board has been actively working on NSD's corporate management improvement, with the aim of bringing it in line with the international standards and practices. In particular, we have adopted NSD's Code of Professional Ethics and approved NSD's Development Strategy (including the corporate risk management development strategy and information policy).

One of the key principles underpinning the Supervisory Board's work is the need to meet the interests of NSD's clients and shareholders and make transparent and well-balanced decisions reflecting the needs of all market participant categories, and we are committed to continue working in accordance with this core principle.

Currently, due to active integration of the Russian CSD into the global infrastructure (including the entry of such major players as Euroclear and Clearstream to the Russian market), it is essential to ensure the international composition of the Supervisory Board by engaging representatives of the global post-trade industry. This would allow the Supervisory Board to broaden its view on NSD development strategy and make use of new practices and know how relating to corporate management of CSDs.

I would like to extend thanks to the Supervisory Board members and NSD's senior managers and employees, as well as to NSD's clients and business partners for their well-coordinated and professional work.

ADDRESS BY THE CHAIRMAN OF THE EXECUTIVE BOARD



EDDIE ASTANIN

Chairman of the Executive Board, NSD

Dear Clients, Shareholders, and Partners,

The year 2013 was a special year for the Russian securities market infrastructure, as it was the first year of operation of a full-service central securities depository (CSD) in Russia. The advent of the CSD gave fresh impetus to the Russian market, significantly streamlined the market infrastructure, reduced risks, and became an important milestone on the way towards the establishment of an international financial center in Russia.

In 2013, with active support from regulators and market participants, we took significant steps to make our infrastructure more appealing and bring it in line with the international standards. In particular, we made arrangements to have assets transferred from registers to CSD nominee accounts, which helped us resolve the settlement finality issue and speed up the settlement process. In addition, foreign nominee accounts were opened for international clearing houses (Euroclear and Clearstream) and CSDs of CIS countries (Belarus, Kazakhstan, and Ukraine) and European countries (Austria); an electronic data interchange network was rolled out for the communication with registrars, which will be used as a basis for the improvement of corporate actions services; 'delivery versus payment' settlements via foreign banks were introduced, which allowed us to transfer all transactions from DCC to NSD; OTC repo transactions were launched; a trade repository was established; and NSD, together with the Russian National Securities Market Association, is currently working on the establishment of a valuation center. Late in 2013, NSD launched services of a pre-Local Operating Unit (pre-LOU) and assigned the first pre-LEI code to a Russian financial organization, and rolled out a speedy depository receipts conversion – depository receipts held by the Bank of New York can now be converted within one business day.

Undoubtedly, the launch of new services has contributed to a higher competitiveness of the Russian securities market infrastructure; however, much is still to be done. In particular, a reform of corporate actions is needed. As part of this reform, the establishment of NSD's Center of Corporate Information is one of the key priorities. To make this happen, we are already intensively working both with the regulator, and with professional market participants.

We make every endeavor to help market participants to adapt to the new environment, namely to the changes in the settlement infrastructure, regulatory changes, and new services.

FTSE Global Markets magazine named NSD among twenty most influential global financial market players in 2013. NSD was marked for its efforts to integrate into the global financial community, its innovative linkages with the leading international settlement and clearing organizations, and its efforts to build an NSD-based regional liquidity center (by means of creating a CIS-wide interoperable network). This obliges us to work hard, and we are not going to rest on our laurels. We are actively working to develop a CSD-related risk management system, ensure CSD's financial stability, get the infrastructure ready for entry of foreign investors (via Euroclear and Clearstream) to the Russian stock market, and improve the range of our products and services (clearing, tri-party services, settlements with the central bank money, etc.).

In light of the above, there is hard, yet interesting, work ahead!

RESULTS OF 2013 AND PLANS FOR 2014



“ NSD today is a full-fledged infrastructure services provider in the Russian financial market, with a number of functions. NSD is a central securities depository, a trade repository, a clearing house, a collateral manager in lending transactions, and a systemically important payment system operator. Such success would have been impossible without help from NSD’s clients and the regulator, feedback from market participants, and, of course, conscientious, hard, well-coordinated, and efficient work of each and every member of NSD’s staff and NSD’s team as a whole. ”

ANDREY SHLYAPPO

Vice President,
Director of Operations

NSD IS A SYSTEMICALLY IMPORTANT ELEMENT OF THE FINANCIAL MARKET INFRASTRUCTURE

National Settlement Depository (NSD) is a member of the Moscow Exchange Group and a central securities depository (CSD) in the Russian Federation.

NSD offers its clients a wide range of services, including settlement and depository services, registration of OTC derivative transactions (repository services), information services, clearing, and collateral management services. NSD settles all on-exchange transactions and most OTC transactions, and provides services with respect to both Russian securities (as a CSD) and foreign securities (NSD covers securities issued by organizations from more than 40 countries). NSD holds accounts with 8 national and international CSDs, as well as correspondent accounts with a number of major foreign and Russian banks.

In 2013, one of the NSD's key projects that had an impact on the entire market infrastructure was the establishment of an NSD-based full-service central securities depository. This process that was completed in a very short time (5 months) involved the opening of CSD nominee accounts in the shareholder registers of more than 1,200 issuers, and resulted in the increase of the total value of securities held in custody at NSD by 82% over the year, to RUB 21.8 trillion. The active transfer of equities (including those owned by U.S. investors) to CSD nominee accounts demonstrates that the Russian CSD is recognized as an eligible securities depository under SEC Rule 17f-7.

In 2013, as the National Numbering Agency, NSD was assigned the status of a pre-Local Operating Unit (pre-LOU), as a result of which Russian market participants can now be assigned a pre-Legal Entity Identifier (pre-LEI), which allows market participants to engage in financial transactions in the U.S. and European markets, where pre-LEI codes is becoming mandatory. The first pre-LEI codes were assigned in 2013. NSD's operations as a pre-LOU meet the G-20 initiatives.

In order to provide services with respect to foreign securities, NSD has entered into an agreement with the U.S. Internal Revenue Service, under which NSD will act as a Qualified Intermediary (QI). This step will allow NSD's clients to reduce withholding tax rates for securities of U.S. issuers upon listing of such securities on the Moscow Exchange and when investing in the OTC market. This will also allow Russian market participants to cut their costs when exercising their rights as owners of such securities.

In 2013, NSD was assigned the status of a systemically important payment system. The total amount of payments made in 2013 exceeded RUB 360 trillion.

IN THE INTERESTS OF THE MARKET

For the Russian stock market and its infrastructure, the year 2013 was one of the busiest years in the history of the market. To make the Russian stock market more appealing to foreign investors, substantial changes were made to the regulatory framework of the market, in particular to the Law "On the Securities Market" and the Russian Tax Code. The regulatory changes were drafted with active input from NSD's experts who joined the working groups formed by the regulator.

As a result, the taxation reform has simplified the application of double taxation treaties between Russia and foreign jurisdictions and the taxation process for foreign investors.

As a withholding agent, NSD also intends to become FATCA-compliant.

MANAGING RISKS

NSD's management bodies pay particular attention to the risk management at NSD. Upon the audit conducted by Thomas Murray, NSD's rating of AA- (very low overall risk, with stable outlook) was affirmed. In November

2013, PricewaterhouseCoopers conducted an operational audit of NSD in accordance with the ISAE 3402 standard, as a result of which an assurance report was issued confirming that the controls implemented at NSD allow achieving the objectives stated.

As part of the risk management procedures, NSD performs stress testing of its IT systems and stability testing of its business processes on a regular basis, and has in place adequate backup infrastructure components, such as a backup site and a backup data center.

In 2013, NSD's Supervisory Board approved NSD's Risk Management Development Strategy for 2014-2015. The new strategy is a functional strategy based on NSD's key strategic initiatives. When developing the strategy, not only have we ensured the consistency of operations, but we have also conducted a SWOT analysis and taken account of the outcome of the risk management system audit conducted by KPMG in 2012. The strategy defines our mission, values, performance targets, and tactical action plans. Upon the strategy implementation, we intend to conduct a new audit of the risk management and assess the progress.

SETTING THE SCENE FOR THE INDUSTRY DEVELOPMENT

In 2013, the largest international clearing houses – Euroclear and Clearstream – entered the Russian market by opening foreign nominee accounts with NSD. Thanks to this, foreign investors have gained an opportunity to conveniently access the Russian government debt market. This step has had many positive effects; in particular, the cost of public borrowing has dropped more than 100 basis points. In addition, the year 2013 saw the opening of foreign nominee accounts for CSDs of CIS countries, such as Kazakhstan, Ukraine, Belarus, and Armenia (an agreement with the latter was signed in February 2014). This was yet another step towards the establishment of NSD as a regional liquidity center in Eurasia.

ENSURING STEADY PROGRESS

The obtainment of CSD status and active integration of NSD into the global financial community have given a fresh impetus to the development of NSD's products and services. In 2013, NSD launched several innovative services in the Russian market, which are aimed at ensuring convenient operating environment both for foreign and domestic investors, and which helped us bring the market infrastructure closer to the international standards and investors' needs.

In 2013, as part of the initiatives aimed at developing settlement and clearing services for clients, NSD implemented a collateral management system for OTC repo transactions with the Bank of Russia. By the end of 2013, the total value of the assets covered by the collateral management system exceeded RUB 1 trillion, and more than 150 banks used the collateral management service.

NSD is the first Russian financial organization that started providing repository services. By the end of 2013, over 750 clients signed up for NSD's repository services. To meet clients' needs, NSD has been actively developing a 'delivery versus payment' settlement process (DVP-1, DVP-2, and DVP-3) and a foreign exchange settlement process for OTC equity transactions. Cash settlements are made both through bank accounts with NSD and via NSD's accounts with JP Morgan Chase and Citi banks. NSD is now taking steps to expand the list of banks for settlements.

In cooperation with The Bank of New York Mellon, NSD has launched a speedy depository receipts conversion service, which allows one to convert depository receipts into shares and vice versa within one business day (as composed to the previous 2 to 3 day time frame).

The year 2013 was a record year, during the last several years, in terms of corporate and sub-federal bond issuances (in total, 352 issues were placed, a 20 percent increase against 2012).

In 2013, much work has been done to implement international SWIFT-based messaging standards

into NSD's business processes: MT 564 Corporate Action Notifications, MT 567 Corporate Action Status and Processing Advices, MT 566 Corporate Action Confirmations, MT 527, MT 558, and MT 569 messages for tri-party collateral management, and MT 575 Reports of Combined Activity for clearing activities. In addition, NSD has introduced a SWIFT FileAct system, as part of repository and withholding agent's services.

CORPORATE GOVERNANCE IS A KEY TO SUCCESS

NSD is taking steps to ensure that corporate management at NSD meets the high global standards. NSD's superior management body exercising management functions during the periods between General Meetings is the Supervisory Board made up of 15 members. The Supervisory Board's work is supported by the work of dedicated committees, namely the Budget Committee, the Nomination and Remuneration Committee, the Technological Policy and Development Committee, and the Audit Committee. In 2014, NSD intends to invite foreign representatives of the financial community to work on the Supervisory Board, which is expected to improve its performance.

In 2013, an active role in NSD's work was played by the National Settlement Depository Customer Committee (Central Securities Depository Customer Committee) and other Customer Committees (Customer Committee for Quality Control and Risk Management, Customer Committee for Settlement and Depository Services and Tariffs, and Customer Committee for Registrar and Depository Relations), as well as by working groups made up of market participants' representatives, including the International Consulting Committee composed of foreign experts in the field of market infrastructure. In addition, NSD's Executive Board has its own committees ¹:

- Risk Management Committee;

¹ The full list of NSD's committees and commissions and their description can be found in the Corporate Governance section.

IN 2013, BELLA ZLATKIS WAS NAMED THE BEST BOARD CHAIRPERSON OF THE YEAR BY THE ASSOCIATION OF INDEPENDENT DIRECTORS

- Tender Committee;
- Product and Project Committee;
- Repository Committee; and
- Risk Management Committee for Payment System.

MISSION AND VALUES

NSD's mission is to provide settlement and depository services to professional participants in the Russian and international financial markets. In doing so, NSD is guided by the following corporate values:

OUR CLIENTS HIGHLY APPRECIATE OUR APPROACH, AS EVIDENCED BY THE FACT THAT THE CUSTOMER SATISFACTION INDEX IN 2013 REACHED 81%.

- **Working in partnership with clients.** A new products, services, and tariffs development strategy is being developed with active input from NSD's clients and with a focus on their needs and expectations.
- **Being ambitious in everything we do.** NSD sets ambitious goals for market positioning, customer service standards improvement, and speeding up the introduction of new products and services.
- **Innovations and development.** NSD is focused on innovative and dynamic development, which involves introduction of products and services demanded by clients, new demand creation, and cost saving for clients.

- **We are result-oriented and dynamic.** We are strongly committed to deliver on our promises to our shareholders, partners, and clients within the set time frames. Delivering measurable results is NSD's performance criterion.
- **We work as one team.** Common goals, trust, professionalism, transparency, and mutual respect are the principles of teamwork at NSD.

FINANCIAL EFFICIENCY

NSD is a central securities depository which makes it necessary to ensure its financial stability. It is achieved through regular stress tests of NSD's economic risk scenarios.

THE COST-TO-OPERATING INCOME RATIO (CTOI) IN 2013 WAS 84%.

PERFORMANCE IN THE KEY AREAS OF BUSINESS

In 2013, NSD set 5 main strategic growth priorities that will become pivotal in NSD's activities in the next years:

- Development of CSD's products and services.
- Development of the Center of Corporate Information and involvement in the reform of corporate actions.
- Development of collateral management system and clearing services.
- Development of the repository.
- Development of the payment system.

NSD'S OPERATIONAL HIGHLIGHTS OF 2013



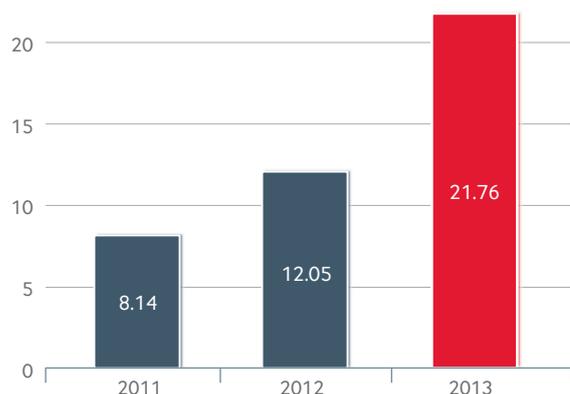
IRINA VEREMEENKO

Member of the Executive Board, Chief Accountant, Director of the Accounting and Reporting Department

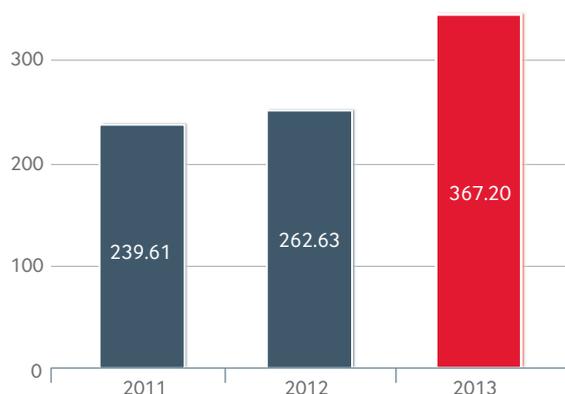
“ I believe that one of the most significant events of 2013 was what was done by NSD to enable major foreign nominee holders (banks and depositories) and, therefore, foreign investors standing behind them to enter the Russian securities market. One of the main factors that contributed to this was the introduction of clear and practicable procedures for taxation of income on Russian securities payable to foreign nominee accounts, with the establishment of a clear regulatory framework governing the application of such procedures by Russian depositories acting as withholding agents. NSD as a central securities depository has been in the forefront of the process.

In 2014, a key objective for NSD, likewise for all other Russian financial institutions, will be to bring its activities and business processes in line with the requirements imposed by The Foreign Account Tax Compliance Act (FATCA), a new U.S. piece of legislation aimed at preventing tax evasion by U.S. taxpayers on payments of U.S. source income. Failure to comply with the FATCA requirements may make foreign counterparties and intermediary banks to close NSD's accounts and not to work with NSD, and may also result in the imposition of a penalty of 30% withholding tax on all U.S. source payments to NSD's clients. It has become especially difficult to achieve the said objective as a result of the suspension by the USA of its cooperation with Russia aimed at signing an intergovernmental agreement in this field. ”

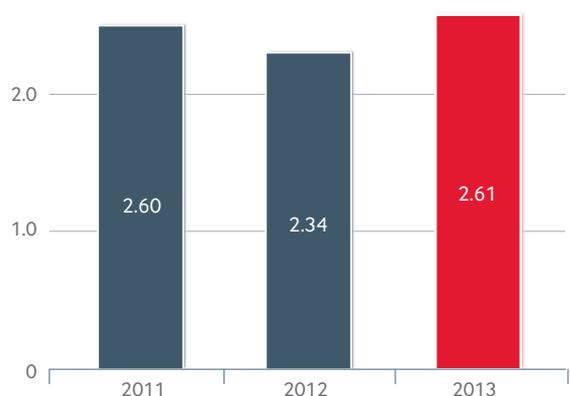
Value of Securities Held in Clients' Securities Accounts (in trillions of RUB)



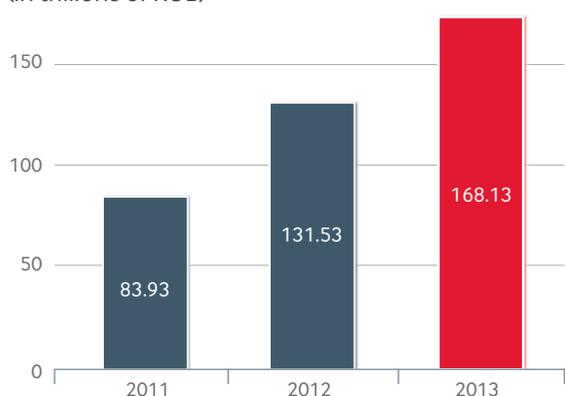
Cash turnover in clients' bank accounts (in trillions of RUB)



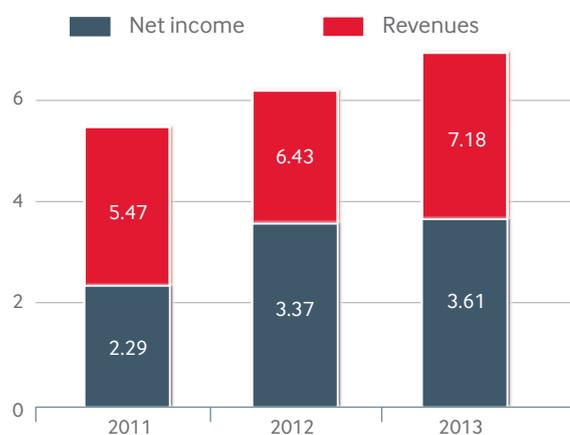
Number of depository transactions assessed in accordance with NSD's methodology (in millions)



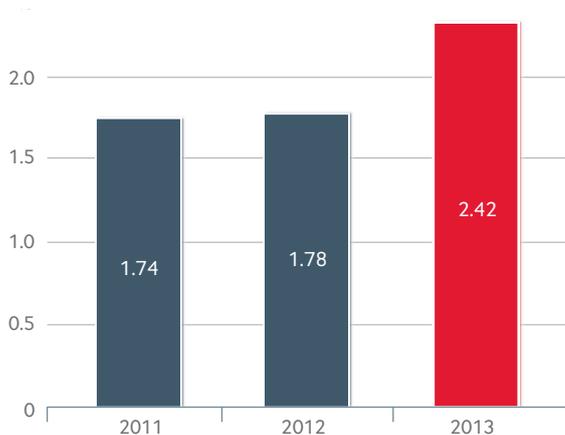
Volume of depository transactions assessed in accordance with NSD's methodology (in trillions of RUB)



Net income and revenues in accordance with the Russian Accounting Standards (in billions of RUB)



Fee and commission income (in billions of RUB)



NSD AS A CENTRAL SECURITIES DEPOSITORY

NSD is a central securities depository (CSD) in the Russian securities market and provides services with respect to securities as a CSD in accordance with Federal Law No. 414-FZ "On the Central Securities Depository" dated 7 December 2011, and also acts as a nominee holder of other Russian

THE NUMBER OF BOOK-ENTRY TRANSFERS PROCESSED IN 2013 EXCEEDED 2,500,000.

and foreign debt and equity securities. The year 2013 was the first year when NSD acted as a CSD. That was a challenging year, as, in accordance with the Law "On the Securities Market", NSD was obliged, within one year after being assigned the CSD status, to either open CSD nominee accounts, or make the relevant changes to nominee accounts held by NSD in:

- all registers of holders of securities issued by issuers who are required to disclose information; and
- all registers of investment unit or mortgage participation certificate holders, if the applicable asset management rules allow such securities to be exchange-traded.

During March 2013, NSD arranged for the transfer of assets valued at over RUB 4 trillion from registers to the CSD for custody. The CSD was finally established seven months ahead of the schedule prescribed by the law. As a result, by the end of the year, more than 1,300 CSD nominee accounts were opened or reclassified in registers for NSD.

To open or reclassify CSD nominee accounts in registers of securities holders, NSD conducted

BY THE END OF 2013, THE VALUE OF ASSETS HELD IN CUSTODY AT NSD REACHED RUB 21.8 TRILLION

a check on those issuers whose securities had been accepted for servicing at NSD or DCC (NSD's subsidiary, a member of the Moscow Exchange Group) to determine whether or not it was required to open a CSD nominee account in the registers of such issuers. As a result, 1,200 issuers were identified, in whose registers, in Q1 2013, nominee accounts were replaced by CSD nominee accounts.

The same work was done for unit investment funds' management companies, and approximately 100 funds were identified for taking similar actions. In September 2013, nominee accounts in such funds' registers were replaced by CSD nominee accounts.

Following the entry into force of the relevant provisions of the Federal Law "On the Central Securities Depository" and the assignment of the CSD status to NSD, international settlement and clearing houses and foreign CSDs gained an opportunity to open foreign nominee accounts with NSD. Foreign nominee accounts allow to significantly reduce foreign investors' risks in the Russian market and achieve equality of rights among domestic and foreign investors.

As a result, early in February 2013, Euroclear and Clearstream started trading in the Russian federal loan bonds (OFZ) market via their accounts with NSD. By the end of the year, according to the Bank of Russia, the OFZ market share of foreign investors settled at the level of 24% to 25%. Entry of foreign investors to the Russian securities market had a positive effect for the market, with over USD 10 billion invested

and the cost of public borrowing reduced by more than 100 basis points. In addition, thanks to these changes Russian federal loan bonds (OFZ) were included in the Barclay's Global Aggregate Index, one of the largest indexes covering 8,300 bonds with the total value of USD 17 trillion. Analysts estimate that the inclusion of OFZ to the Barclay's Index will result in additional investment of USD 2.5 – 3 billion in the Russian market. Also, MSCI Barra calculating MSCI indexes (leading benchmarks for investors in emerging markets) has announced that it was

ready to include foreign companies with Russian assets in the MSCI Russia Index.

In 2013, the President of the Russian Federation signed the Federal Law "On Making Amendments to the First and Second Parts of the Russian Federation Tax Code and Certain Laws of the Russian Federation", under which Russian depositories (including NSD), with effect from 1 January 2014, are to act as a withholding agent not only with respect to bonds, but also with respect to Russian equities.

COOPERATION WITH ISSUERS

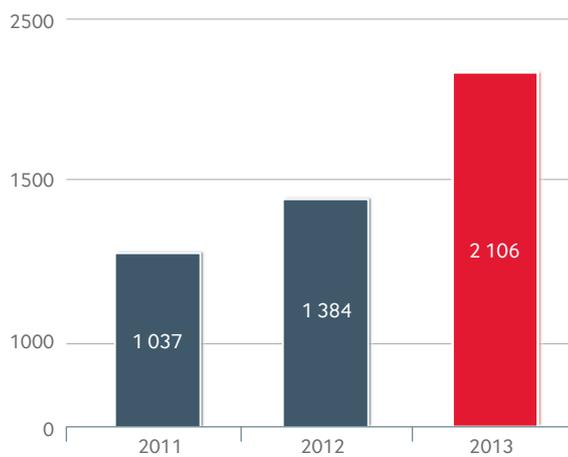
Apart from cooperation with registrars, the increase in assets held in custody with NSD resulted also from intensive cooperation with issuers. In 2013, there were IPOs of five equity issues on the Moscow Exchange, and 8 certificates of federal loan bonds with the total nominal value of RUB 1,200 billion were accepted by NSD for servicing.

The year 2013 saw the offering of 352 issues of corporate and sub-federal bonds with the total nominal value of RUB 2,105,676 million (according

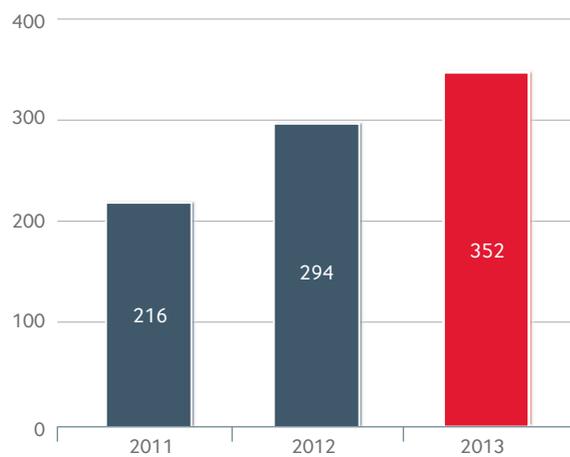
to the details specified in the certificates accepted by NSD for custody). In 2013, 58 issuers offered their bonds for the first time in their history. In addition, 4 bond issues were denominated in USD (with the total nominal value of USD 400 million).

The below graphs show the movement of the number and total value of corporate and sub-federal bond issues (according to the details specified in the certificates accepted by NSD for custody):

Value of issues (in billions of RUB)



Number of issues



CENTER OF CORPORATE INFORMATION

In 2014, the Russian equities market is expected to be opened for foreign investors. The availability of timely and accurate information and a possibility to exercise rights attached to securities are one of the most important factors investors (especially foreign ones) take into account when

making a decision to buy or sell securities. To unlock the potential offered by the Russian equities market liberalization, foreign investors must be granted access to information and a possibility to exercise their rights on an equal basis with domestic investors.



“ As one of the key elements of the securities market infrastructure, NSD brings international standards and best practices (including those relating to corporate actions) to the Russian market. In 2013, NSD launched the project for the establishment of a center of corporate information and corporate actions in the Russian market. The key objectives for 2014 are the obtainment by NSD of the official status of a center of corporate information in the Russian market and the implementation of initiatives for corporate actions standardization. ”

SERGEY BERNEVEGA

Head of Division for Interaction
with Registrars and Securities
Depositories

The establishment of an NSD-based Center of Corporate Information (CCI) is a large-scale project unique not only for the Russian market. Through the CCI, NSD as a central securities depository is committed to grant market participants access to timely, precise, and well-structured corporate information.

In 2013, the efforts aimed at establishing the CCI were focused on the development of its technological platform. Having completed a thorough tender process and analysis, NSD entered into a license agreement with GoldenSource Corporation for the use of an Enterprise Data Management (EDM) system that allows NSD to conduct automated data acquisition from a number of sources simultaneously, to process data (in particular, to automatically reconcile data to find discrepancies and select benchmark data), and to provide clients with well-structured corporate information on issuers, their securities and corporate actions.

The CCI's mission is to provide clients with information about corporate actions in a reader-friendly format, including in compliance with the global disclosure standards. In addition, thanks to the availability of a wide range of information sources and the information verification method employed by NSD, it becomes possible to offer complex products that allow information recipients to minimize their labor costs. Such products include SIR-NSD (Securities Information Review, a database containing securities details and related information), the Library of Issuance Documents, and the National Securities Market Association (NSMA) Valuation Center.

The year 2014 will be critical for the establishment of the CCI, as the project is to be finally launched in 2015. NSD is involved in the process of drafting necessary regulations for the CCI, and intends to significantly expand the range of services by adding nine new services.

NSMA VALUATION CENTER

In 2013, NSD, in cooperation with the National Securities Market Association (NSMA), announced the establishment of the Valuation Center the objective of which is to provide market participants with information on fair market prices of financial instruments, mainly low liquid financial instruments.

The NSMA Valuation Center is a unique product that allows investors to get, on a daily basis, an independent valuation of all bonds accepted by the Russian central securities depository for servicing (more than 1,700 bond issues). As part of the project, NSD is currently developing a software package for automated use of the fair market price calculation methodologies, and calculates and provides market participants (such as banks, financial companies, and funds) with prices calculated in accordance with such methodologies, on a daily basis and in the manner and form agreed upon.

REFORM OF CORPORATE ACTIONS

In 2013, NSD completed its work on legislative initiatives in the field of corporate actions, which would allow shareholders to enjoy equal rights regardless of the shareholders' geographical location. This could be ensured by introducing an e-voting process in the Russian securities market, as well as by processing corporate actions in a centralized manner, through a settlement infrastructure organization, and by abolishing paperwork.

The said initiatives have been supported both by government authorities and securities market participants. As a result, the key objectives for 2014 will be the development of necessary technologies and preparation for the introduction of an automated corporate action processing system based on the best international practices and securities market participants' requirements.

CLEARING AND TRI-PARTY SERVICES

The new services developed and launched in 2013 are designed mainly to provide NSD's clients with new opportunities and more flexibility to settle their trades in the challenging and rapidly changing environment of the current financial market.

Newly introduced 'delivery versus payment' (DVP) settlement models allow more flexibility in trade settlement, while repo transactions with a securities basket provide new opportunities to raise liquidity.



“ The year 2013 was rich in events that had an impact on the Russian market development and Russian post-trade infrastructure positioning in the global arena. The Research and Development Department has been actively involved in the initiatives aimed at the improvement of Russian laws in order to simplify the taxation of income on securities for foreign investors. In 2013, with direct input from the R&D Department, NSD launched a number of key products: DVP settlements, tri-party services, and a repository. In addition, NSD started opening and servicing foreign nominee accounts. Our membership in international associations, as well as in the International Consulting Committee set up by NSD, allows us to share best practices and take steps to ensure NSD is integrated into the international post-trade community.

We have plenty of plans and ideas for further development of products and correspondent relations, as well as for further positioning of NSD as a Russia's CSD in global markets. The principal objective of all of these initiatives is to improve the services we provide to our clients, make such services even more convenient, and attract new investors to the Russian market ”

ELENA GUSALOVA

Director, Head of Research
and Development

BANK OF RUSSIA'S REPO TRANSACTIONS WITH A SECURITIES BASKET

In 2013, NSD, in cooperation with the Bank of Russia and Bloomberg, developed and launched a new collateral management service – tri-party repo transactions with the Bank of Russia. The new service was launched to provide NSD's clients with a new channel to receive funds from the Bank of Russia. To use the service, the following requirements have to be met:

- Transactions must be made with a securities basket, rather than with individual securities issues; and
- NSD must provide clearing and collateral management services (selection of securities as a collateral, collateral revaluation, and collateral replacement).

Bank of Russia's repo transactions with a securities basket offer a number of advantages as compared to the currently used liquidity distribution system:

THE USE OF A TRI-PARTY REPO MECHANISM

NSD plays the role of a clearing and settlement house and a collateral management agent.

TRANSACTIONS ARE MADE WITH A SECURITIES BASKET

Repo transactions are made with a securities basket, rather than with individual securities. This allows NSD to more efficiently manage collateral assets pledged to the Bank of Russia.

SUBMISSION OF REQUESTS THROUGH BLOOMBERG TERMINALS

Requests for transactions are submitted through Bloomberg terminals which inform market participants about repo auctions announced by the Bank of Russia, register requests, and notify market participants about the execution of requests.

DVP-3 OR DVP-1 SETTLEMENTS

Funds can be received either upon completion of three clearing sessions, on a DVP-3 basis, or immediately after the transaction is made, on a DVP-1 basis.

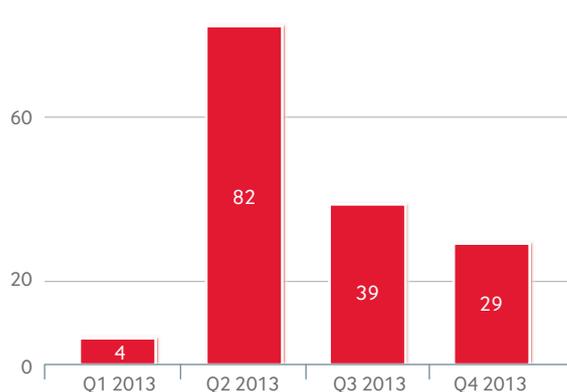
AUTOMATIC ROLLOVER

If, due to any reason, the client does not have sufficient funds on the date when the second leg of the repo transaction is to be executed, the client may automatically rollover the trade to the next day.

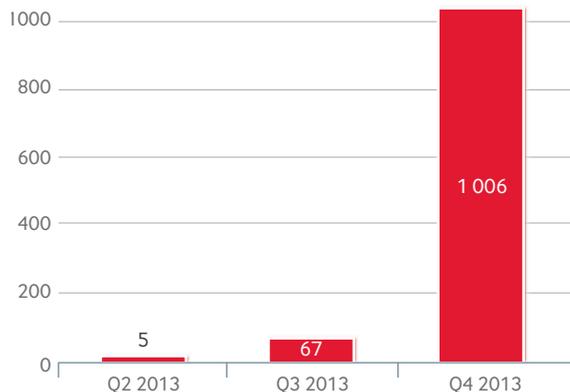
By the end of 2013, the amount of liabilities recorded by NSD exceeded RUB 1 trillion. It should be noted that the number of large-value transactions made by market participants has decreased. It means that the liquidity increases without placing an excessive burden on the financial system.

In 2014, the plans include the development of a tri-party service for inter-dealer repo transactions that will allow market participants to take advantages of transactions with a securities basket, including the system of automated selection of securities as a collateral, collateral valuation, and enforcement of margin calls.

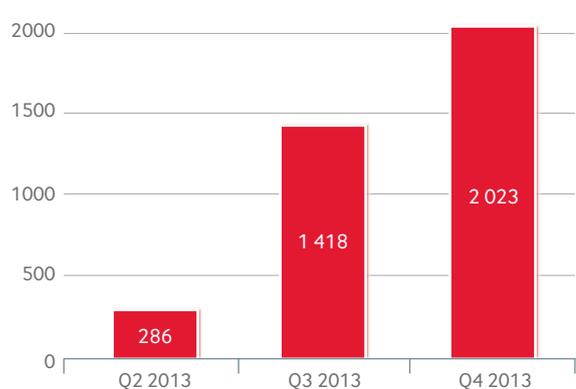
Number of collateral management services agreements



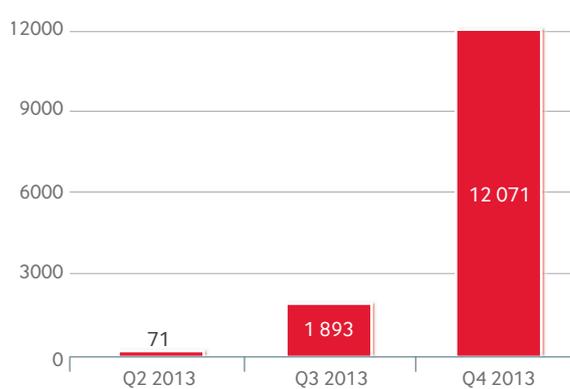
Increase in collateral assets, quarterly average value (in billions of RUB)



Number of Bank of Russia's repo transactions with a securities basket



Volume of Bank of Russia's repo transactions with a securities basket (in billions of RUB)



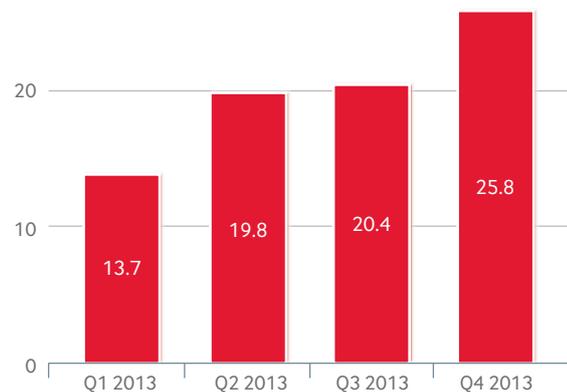
DEVELOPMENT OF 'DELIVERY VERSUS PAYMENT' (DVP) SETTLEMENT SERVICES

In 2013, NSD continued to develop its 'delivery versus payment' (DVP) settlement service (DVP-1, DVP-2, and DVP-3). The new service represents a significant improvement of the securities delivery mechanism with the cash settlement control that existed earlier at NSD. The service uses the capabilities of NSD's new clearing platform which allows clients to settle trades using DVP model 1 (settlement on a gross (trade-by-trade) basis), DVP model 2 (gross settlement of securities followed by net settlement of cash), or DVP model 3 (net settlement of both securities and cash). The new DVP version allows clients to use a single instruction for securities and cash, settle trades both in Russian rubles and foreign currencies (USD or Euro), and prioritize the execution of instructions.

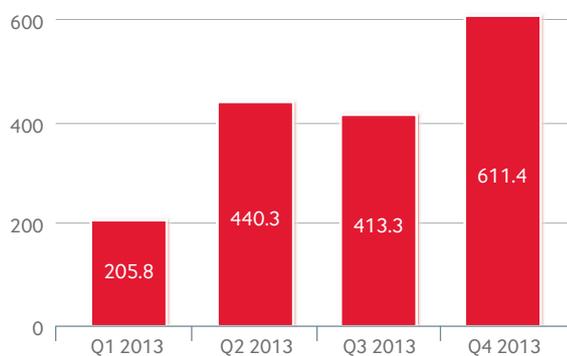
In 2013, NSD rolled out a version of the DVP settlement service that allows participants and their customers to settle their trades on a DVP basis using their foreign currency bank accounts with foreign banks (J.P. Morgan & Co., New York; Citibank, New York). However, it should be noted that the percentage of DVP settlements through NSD has significantly increased as compared to settlements through accounts with foreign settlement banks.

NSD's further plans include further improvement of the DVP settlement technology, in particular, introduction of electronic matching of instructions, introduction of an option to automatically withdraw funds from trading bank accounts held with NSD, extension of a list of settlement banks, and the launch of DVP settlement using correspondent accounts with the Bank of Russia via the Real Time Gross Settlement System (BESP).

Number of clearing transactions (DVP)
(in thousands)



Volume of clearing transactions (DVP)
(in billions of RUB)



REPOSITORY

In accordance with the decision made by G-20 representatives during the 2009 G-20 Pittsburgh summit, and subject to the applicable laws, market participants making OTC repo transactions,

derivatives transactions, or any other transaction types under master agreements are required to disclose information about such transactions to a designated organization (a repository).



“ The key achievement of the Repository development in the past year was the preparation for the launch of a full-scale reporting system for all standardized types of OTC contracts. This was achieved through the implementation of a new message format and new channels for communication with the Repository for all client categories. The establishment of the Customer Committee for Repository Services and of the Working Group for Technologies, as well as the participation in other committees and working groups, contribute to further development of the Repository with due account for the needs of all the interested parties. The short-term objective of the Repository Project is the optimization of technologies and the regulatory framework in light of the changing regulatory environment, while the long-term strategic objective is to develop and offer new market services related to pricing, revaluation, reconciliation and confirmation on the OTC market. ”

MARIA IVANOVA

Vice President, Director
for Development
and Client Relations

On 5 February 2013, it was announced that NSD's Repository was prepared to receive reports on two types of OTC contracts made under a master agreement, namely currency swap and repo contracts. In accordance with the effective laws and regulations, market participants became obliged to register their OTC repo and currency swap

THE NUMBER OF REPORTS REGISTERED WITH THE REPOSITORY IN 2013 EXCEEDED 10,000

transactions with a repository with effect from 5 November 2013. NSD announced that the Repository was prepared to receive reports on all types of OTC contracts made under a master agreement, starting from 1 October 2013².

In accordance with the effective laws and regulations, message formats used by NSD's Repository include also a master agreement registration form, a quarterly report on contracts maturing within 4 business days, a contractual liabilities status report, and other mandatory or additional forms.

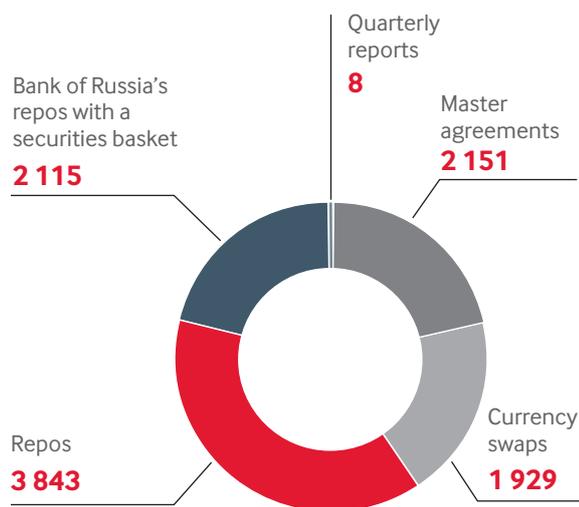
With due consideration of the categories of market participants liable to disclose information to the Repository, NSD provided for several reporting channels:

- Luch software that includes Repository's basic services and has a Russian interface;
- SWIFT FileAct;
- Web interface in Russian and English;
- Web account allowing to create and interchange electronic documents with the Repository's system; and
- Hard copy reports (to be used in case of technical issues faced by the Repository or market participants).

Since 1 October 2013, NSD has been acting as a reporting agent for OTC repo transactions with a securities basket with the Bank of Russia.

BY THE END OF 2013, 725 CLIENTS SIGNED UP FOR THE REPOSITORY SERVICES

Breakdown of reports registered as at 1 January 2014



² "All types of contracts" mean contracts made over-the-counter under a master agreement, including derivatives, repo contracts, and other contracts for securities or foreign currency.

In 2014, one of the most important objectives will be the development of NSD's repository system architecture that would include the following capabilities: optimization of message-matching algorithms when a transaction is reported by both parties to the transaction; alteration, in collaboration with market participants and upon approval by the Bank of Russia, of the list of details to be entered into the register of contracts, and making relevant changes to the message formats used by NSD's Repository; introduction of additional message

registration procedures; and development of additional message formats (including those for batch reporting). It will be essential to ensure compliance with the requirements of new laws and regulations governing repository activities currently being drafted by the Bank of Russia. Another important objective for 2014 will be to create conditions for the disclosure of aggregate information, the general requirements of which are set forth by international standards, while the specific requirements to which are set forth by the Bank of Russia.

PAYMENT SYSTEM



“ NSD’s Payment System, just like a living organism, is permanently growing, both in terms of quantity and quality. Our key priorities are to find opportunities and a niche for new settlement services convenient for our clients and to ensure a high speed and quality of service. One of our short-term objectives is to implement conversion services that would allow our clients to trade in various segments of the on-exchange and OTC markets without leaving NSD. ”

**SVETLANA
GRYANCHENKO**

Director of the Cash Settlement
Department

On 26 December 2012, the Bank of Russia designated NSD as NSD's Payment System operator. This designation was recorded in the Payment System Operators Register on 26 December 2012 under registration number 0014. In 2013, NSD's Payment System was recognized by the Bank of Russia as a systemically important payment system in accordance with the Federal Law "On the National Payment System". NSD offers its clients the possibility to make payments in nine currencies.

As a result, in 2013, the most important infrastructure functions of the financial market (CSD, clearing house, and payment system) became concentrated within NSD, which allowed NSD to produce a synergy effect for clients.

NSD is strongly committed to further developing its services, improving the performance of the payment system's infrastructure components (such as the operations center, the payment clearing center, and the settlement center), at the same time managing risks and ensuring the continuity of services.

In 2014, the Bank of Russia will assess the performance of NSD's Payment System to make sure it operates in accordance with the CPSS-IOSCO Principles for Financial Market Infrastructures.

Number of transactions:	1 129 831
<hr/>	
Volume of transactions (in millions of RUB):	
<hr/>	
• in Russian rubles:	363 834 115
<hr/>	
• in foreign currencies:	3 362 982

RELATED SERVICES

Apart from the five key business lines, NSD also offers related services, including SWIFT access services, electronic data interchange between NSD and its clients, and electronic data interchange with registrars.

SWIFT

The active use of the SWIFT system and international standards is one of the key priorities to improve NSD's electronic data interchange processes. The total number of SWIFT messages sent in 2013 increased six-fold as compared to 2012, with the most of the increase contributed by a five-fold increase in the number of outgoing SWIFT messages relating to securities. In 2013, NSD introduced several new SWIFT formats, started using the SWIFT FileAct service for interacting with foreign nominees in the course of fulfilling the withholding agent functions, and arranged for the communication with market participants via the SWIFT FileAct service in the course of providing repository services.

NSD'S ELECTRONIC DATA INTERCHANGE

NSD maintains electronic data interchange (EDI) with clients, clearing participants, clearing

houses, exchanges, account fiduciaries, securities sub-account operators, registrars, issuers, correspondent depositories, paying agents, credit or non-credit organizations being bank account holders, NSD's regional agents, and other types of entities being NSD's EDI participants. Electronic data interchange at NSD is maintained through such channels as SWIFT, telex, and EDI system channels (Luch software, MS Internet Explorer, Bank-Client Interface, Bank-Client Internet Interface, and Bank-Client Intranet Interface).

NSD's clients may also use a transit service that allows them to interchange electronic data via NSD's EDI system.

ELECTRONIC DATA INTERCHANGE WITH REGISTRARS

As a multi-user automated system, NSD's electronic data interchange system can also be used for any communication between registrars and entities (NSD's EDI participants) registered in registers. EDI participants may not only submit documents to make transactions in a register, but also interchange electronic data with each other..

CORPORATE GOVERNANCE



MARIA KRASNOVA

Deputy Chairperson of the Executive Board

“ The year 2013 was an extremely busy and fruitful year for NSD. It is impossible to choose any specific event, so I would like to speak about several most important things that affected the entire Russian securities market. First of all, in January 2013, two previously competing settlement depositories – NSD and DCC – completed the challenging merger process that lasted for more than one year. As a result, a single Russian settlement depository was established on the base of NSD, which allowed clients to receive all necessary services from a single company, the central element of the securities recordkeeping system. In March, NSD started operating as a full-service central securities depository, which resulted not only in significant changes in the company’s and its clients’ business processes, but also in important changes in the way the company’s staff perceive our mission and responsibility. I believe this is very important. Also, it should be said that following the many-year efforts NSD has been finally recognized as an Eligible Securities Depository, which means that foreign market players acknowledge that NSD meets their high expectations of asset security and risk management. All of the said milestones were the result of long-lasting processes, a very successful result that paved the way for further development of both NSD and the Russian securities market as a whole. Our further steps will be to establish a full-fledged, state-of-the-art infrastructure in Russia for processing corporate actions. This is a paramount objective, and if we succeed, this will allow us to reduce infrastructure risks, contribute to improved corporate governance at Russian companies, and make the Russian market more appealing to investors. I strongly believe that 2014 will be as interesting as 2013! ”

The corporate governance at NSD covers the overall management of the company's activities by the General Meeting of Shareholders and Supervisory Board, as well as relations with NSD's management bodies and other stakeholders (i.e., employees, customers, partners, counterparties, banking regulatory supervisory authorities, and other government authorities and agencies) related to:

- setting strategic objectives for NSD and implementing an effective governance system;
- providing proper incentives for NSD's management and employees to pursue NSD's strategic objectives;

- maintaining the balance of shareholders' interests and the interests of Supervisory Board members, executive bodies' members, and other stakeholders; and
- ensuring compliance with the Russian laws and regulations, NSD's Articles of Association and internal regulations.

As a CSD, NSD is committed to taking care of the interests of its clients, regulators, and market participants.

CORPORATE GOVERNANCE PRINCIPLES

NSD adheres to the key OECD principles of corporate governance reflected in the Shareholders Agreement with respect to NSD, under which the corporate governance system should:

- ensure the equitable treatment of shareholders;
- recognize the rights of stakeholders established by law;
- ensure that timely and accurate disclosure is made on all material matters regarding NSD, including the financial situation, performance, ownership, and governance of NSD; and
- ensure the strategic guidance of NSD, and the efficient monitoring of management by the General Meeting of Shareholders and Supervisory Board.

The Supervisory Board performs strategic management of NSD and exercises effective control over the Executive Board and Executive Board Chairman.

- The Supervisory Board is responsible for defining the company's development strategy, exercising efficient control over the company's financial and business activities, and approving the company's budget.

- The composition of the Supervisory Board ensures the most effective performance of its functions.
- The Supervisory Board members actively participate in Supervisory Board meetings, as well as meetings of the Supervisory Board Committees.
- Supervisory Board meetings are convened on a regular basis, either in the form of in-person meetings or in the form of absentee voting, depending on the importance of the agenda issues and in accordance with the schedule of Supervisory Board meetings.
- The Regulations on the Supervisory Board set out, in detail, the procedure for arranging and holding Supervisory Board meetings.
- The Supervisory Board comprises the Budget Committee, the Audit Committee, the Nomination and Remuneration Committee, and the Technological Policy and Development Committee.
- In accordance with NSD's Articles of Association, the Supervisory Board may establish any other standing or ad-hoc committees, or Customer Committees responsible for certain key areas of NSD's business in order to deal with any current issues.

- The Supervisory Board is responsible for ensuring the effective performance of the Executive Board and the Chairman of the Executive Board, as well as for exercising control over their performance.

The Executive Board and the Chairman of the Executive Board are capable of effectively and reasonably running NSD's day-to-day operations, in good faith and in the best interests of NSD.

- In accordance with NSD's Articles of Association, the Executive Board has the powers to deal with the most complex issues arising in the company's day-to-day operations.
- The composition of the Executive Board ensures the most effective performance by NSD's executive bodies of their functions.

To enable its shareholders to make reasonable decisions and to ensure the transparency of its operations, NSD discloses, in a timely fashion, full and accurate information on its activities, as required by the Russian laws and NSD's internal regulations, including information on the company's financial standing, performance indicators, ownership structure, and governance structure.

- NSD's shareholders enjoy equal rights to gain access to any corporate information.
- NSD's shareholders and other stakeholders may receive full and accurate information, including

information on NSD's financial standing, performance, governance, shareholders, and any material facts that affect NSD's financial and business activities.

- NSD has controls in place to ensure that its internal information and trade secrets are kept confidential, and the use of the same is monitored.

NSD assesses its corporate governance system in accordance with the Bank of Russia's recommendations laid down in its Letter No. 11-T "On a Corporate Governance Assessment Questionnaire for Credit Organizations" dated 7 February 2007.

In accordance with section 11.3.24.7 of NSD's Articles of Association, the company's corporate governance system is assessed at least once a year. Upon completion of such assessment, a corporate governance report is prepared and submitted to the Supervisory Board for approval. A regular assessment of NSD's corporate governance system was performed in 2013.

To assess its corporate governance, NSD uses a special "corporate governance quality index" developed based on the questionnaire recommended by the Bank of Russia in its Letter No. 11-T dated 7 February 2007. The current index score for the purpose of internal self-assessment is calculated on a quarterly basis.

SUPERVISORY BOARD'S REPORT ON NSD'S PERFORMANCE IN THE KEY AREAS OF BUSINESS

During the reporting year, the Supervisory Board carried out the overall management of NSD's operations during the periods between the General Meetings of Shareholders.

In the reporting year, the Supervisory Board held 18 meetings and considered various matters related to NSD's key areas of business. Among these, the Supervisory Board considered certain matters related to the implementation of high priority projects and the status of NSD's project activities, as well as matters related to NSD's activities as a CSD, risk management, operational performance, and the development of corporate governance at NSD.

The Supervisory Board made decisions on key issues related to NSD's financial and business activities and business development, including the following:

- performance against the budget of NSD's revenues, expenses and profit, and the capital expenditure budget for 2013, and making adjustments thereto;
- approval of the budget of NSD's revenues, expenses and profit, and the capital expenditure budget for 2014;
- approval of NSD's restated portfolio investment policy;
- preliminary approval of NSD's 2012 Annual Report;
- approval of the fees payable to NSD's independent auditor;
- making changes to NSD's Fee Schedule;
- NSD's projects for 2014;
- NSD's IT strategy;
- NSD's risk management development strategy; and
- approval of the tariff, client, and marketing policies.

Also, the Supervisory Board gave much attention to considering and deciding on the matters of corporate governance at NSD, in particular:

- assessment of the corporate governance at NSD;
- assessment of NSD's internal control system;
- approval of the organizational structure and members of NSD's Executive Board, and authorizing Executive Board members to hold positions in management bodies of other entities;
- sale of NSD's shares in accordance with the Shareholders Agreement;
- convocation of the annual General Meeting of Shareholders;
- making amendments to NSD's Articles of Association;
- recommendations to the annual General Meeting of Shareholders;
- establishment of Supervisory Board Committees and Customer Committees;
- disposal of the interest in the share capital of SDCO (CJSC); and
- approval of NSD's interested party transactions.

In addition, decisions were taken on the matters related to NSD's operational efficiency, amendment and approval of NSD's internal regulations, including the following:

- reviewing reports submitted by NSD's Internal Control Division and approving its working plans, and reviewing reports submitted by NSD's controller in connection with NSD acting as a professional securities market participant;
- assessment of CSD's risks;

- approval of NSD's Regulations on the Criteria (Principles) for the Selection of Investment Assets;
- approval of NSD's restated Clearing Rules;
- approval of NSD's restated Terms and Conditions of Depository Operations;
- approval of NSD's restated Electronic Communication Rules;
- approval of NSD's restated Information Disclosure Rules; and
- approval of a list of measures aimed at ensuring failure-free operation of NSD's software and hardware.

In 2013, NSD's Supervisory Board conducted a self-assessment of its performance in accordance with the methodology recommended by the Bank of Russia in its Letter No. 11-T dated 7 February 2007. The self-assessment covered the following issues:

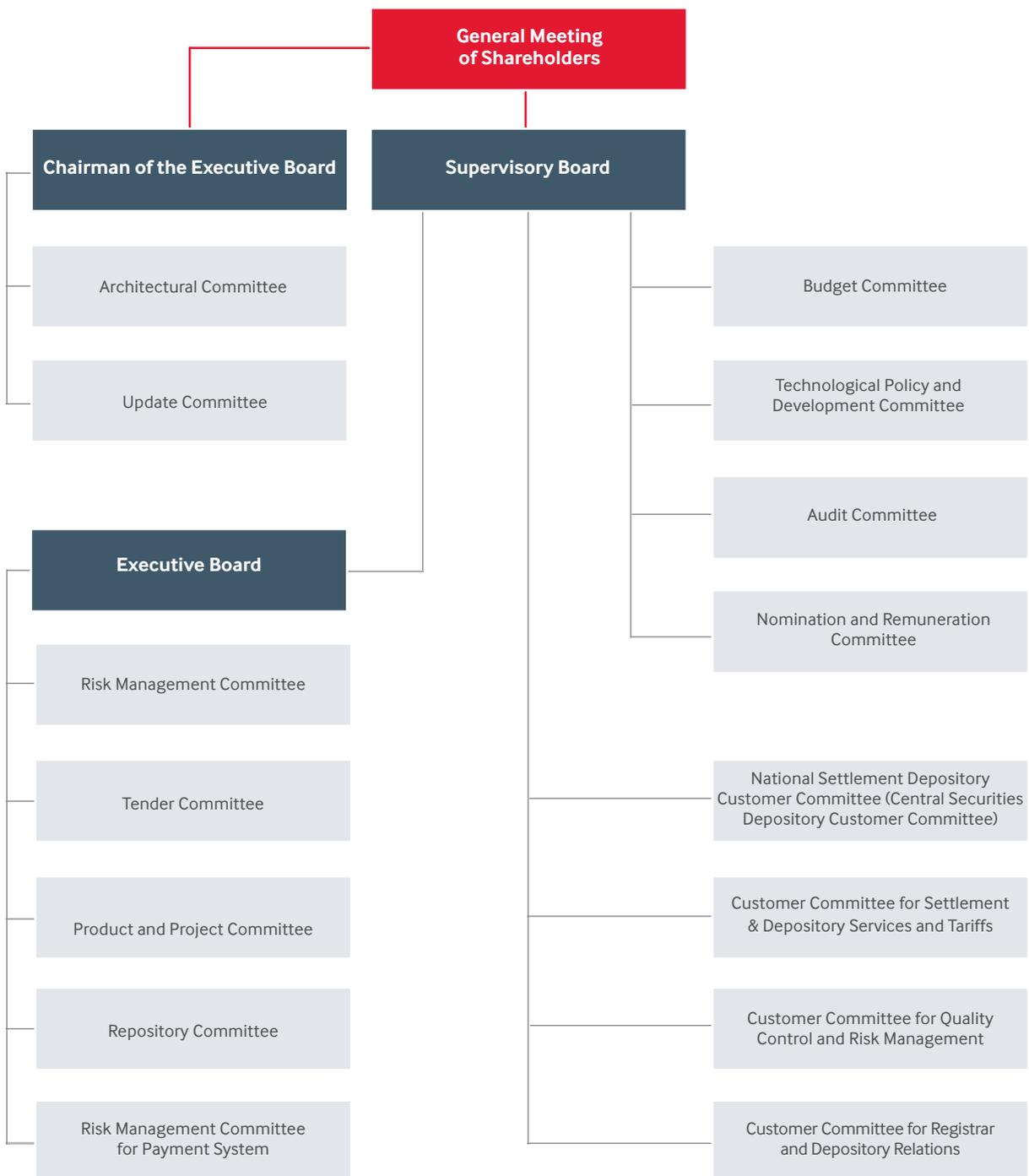
- overall management of NSD's operations and setting business priorities;
- organizing Supervisory Board's activities, including its interaction with NSD's executive bodies;
- compliance with the corporate governance principles;
- availability of efficient risk management at NSD; and
- availability and quality of necessary internal regulations the approval of which is reserved to the Supervisory Board.

The self-assessment involved completing a questionnaire by the Supervisory Board members and individual interviews held by the Chairman of the Nomination and Remuneration Committee with some of the Supervisory Board members to elaborate on their comments and suggestions.

The final self-assessment report was presented and discussed at an in-person meeting of the Supervisory Board. Upon discussion of the report, the Supervisory Board approved the key areas for the development and improvement of its activities in 2014, including:

- changing the form of materials to be prepared for Supervisory Board meetings (such materials must include a summary of the matters to be discussed at a meeting, preferably in the form of a presentation);
- planning the work of Supervisory Board Committees and providing Supervisory Board members with information on key decisions taken at Supervisory Board Committee meetings;
- broadening communication between Supervisory Board members and NSD's senior managers; and
- active involvement of Supervisory Board members in the work on any issues related to NSD's Development Strategy.

NSD'S CORPORATE GOVERNANCE STRUCTURE



NSD'S MANAGEMENT BODIES

BODY	AUTHORITY
GENERAL MEETING OF SHAREHOLDERS	The General Meeting of Shareholders is NSD's superior management body. General Meetings are convened at least once a year. The General Meeting makes decisions on key matters related to NSD's activities. The list of matters reserved to the General Meeting is set out in Federal Law No. 208-FZ "On Joint-Stock Companies" dated 26 December 1995 and NSD's Articles of Association.
SUPERVISORY BOARD	The Supervisory Board is NSD's superior management body exercising management functions during the periods between General Meetings. Supervisory Board members are elected by the General Meeting of Shareholders for the period until the next annual General Meeting. The procedures of the Supervisory Board are governed by the Regulations on the Supervisory Board approved by the General Meeting.
CHAIRMAN OF THE EXECUTIVE BOARD	The Chairman of the Executive Board is the chief executive officer of NSD. The Chairman of the Executive Board is appointed by the General Meeting of Shareholders for a term of three years.
EXECUTIVE BOARD	The Executive Board is NSD's collegial executive body. Executive Board members are appointed by the Supervisory Board. The procedures of the Executive Board are governed by the Regulations on the Executive Board approved by the General Meeting.

COMMISSIONS AND COMMITTEES

Additional information regarding NSD's commissions and committees is available at pages 54 to 63 of this Report.

COMMITTEES OF THE SUPERVISORY BOARD

NAME	MISSION
AUDIT COMMITTEE	Ensuring efficient work of NSD's Supervisory Board in organising the internal control and external audit system, as well as risk management at NSD.
BUDGET COMMITTEE	Improving the efficiency of NSD's Supervisory Board by ensuring proper control over the way funds are received and spent at NSD. The Committee thoroughly prepares materials to be considered at meetings of NSD's Supervisory Board relating to financial planning and financial resources management at NSD.
NOMINATION AND REMUNERATION COMMITTEE	In-depth analysis of matters relating to the recruitment, assessment and remuneration of NSD's senior managers, including Supervisory Board members, the Chairman of the Executive Board, Executive Board members, and members of the Internal Audit Commission, and preparation of materials to be considered at Supervisory Board meetings.
TECHNOLOGICAL POLICY AND DEVELOPMENT COMMITTEE	Analysis of development of NSD's IT systems, and making recommendations to the Supervisory Board and the Executive Board on the matters related to the technological policy in the field of creation, maintenance, operation, and development of such IT systems.

COMMITTEES OF THE EXECUTIVE BOARD

NAME	MISSION
RISK MANAGEMENT COMMITTEE	Assistance to the Executive Board in the field of corporate governance and risk management.
TENDER COMMITTEE	Securing the best terms for procuring goods, services, and works needed to support NSD's operations, and minimizing the risk of NSD contractors failing to deliver.
PRODUCT AND PROJECT COMMITTEE	NSD's project management.
REPOSITORY COMMITTEE	Considering proposals and making recommendations to the Executive Board for the development and improvement of NSD's trade repository activities.
RISK MANAGEMENT COMMITTEE FOR PAYMENT SYSTEM	Considering proposals and making recommendations to NSD's executive bodies in the field of risk management in NSD's Payment System.

COMMITTEES OF THE CHAIRMAN OF THE EXECUTIVE BOARD

NAME	MISSION
ARCHITECTURAL COMMITTEE	Making proposals to ensure uninterrupted operation of the IT infrastructure, development of the IT strategy, and monitoring of its implementation.
UPDATE COMMITTEE	Quality analysis of controls in the course of updating software or IT infrastructure, and risk management in the course of making updates.

CUSTOMER COMMITTEES

NAME	MISSION
CUSTOMER COMMITTEE FOR QUALITY CONTROL AND RISK MANAGEMENT	Making recommendations to the Supervisory Board on the client and marketing policy, improving the quality of clients' service, and approval of internal documents related to clearing activities.
CUSTOMER COMMITTEE FOR SETTLEMENT AND DEPOSITORY SERVICES AND TARIFFS	Analysing customers' needs, making recommendations for the development of depository and settlement products and NSD's tariff policy.
CUSTOMER COMMITTEE FOR REGISTRAR AND DEPOSITORY RELATIONS	Making recommendations to improve existing methods of interaction between NSD and registrars, and proposals to change existing technologies being used for the interaction between NSD and registrars.
NATIONAL SETTLEMENT DEPOSITORY CUSTOMER COMMITTEE (CENTRAL SECURITIES DEPOSITORY CUSTOMER COMMITTEE)	Approval of internal regulations of NSD as a central securities depository and NSD's fees for depository services.

INTERNAL AUDIT COMMISSION

NAME	MISSION
INTERNAL AUDIT COMMISSION	The Internal Audit Commission is the controlling body responsible for exercising internal control over NSD's financial and business activities. Members of the Internal Audit Commission are elected at annual General Meetings of Shareholders. The procedures of NSD's Internal Audit Commission are governed by the Regulations on the Internal Audit Commission approved by the General Meeting.

SUPERVISORY BOARD MEMBERS ELECTED AT THE ANNUAL GENERAL MEETING OF SHAREHOLDERS ON 25 MAY 2012³

RUBEN AGANBEGYAN	EDDIE ASTANIN
MIKHAIL BRATANOV	ANNA VYSHLOVA
OLEG VYUGIN	BELLA ZLTKIS
MARIA IVANOVA	ALEXANDER IKONNIKOV
IRINA IKONNIKOVA	ANDREY REMNEV
EKATERINA SIZOVA	VLADIMIR TATSIY
NADEZHDA USHAKOVA	ALEXEY FEDOTOV
ALEXANDER SHCHEGLOV	

SUPERVISORY BOARD MEMBERS ELECTED AT THE ANNUAL GENERAL MEETING OF SHAREHOLDERS ON 26 JUNE 2013. INFORMATION ON THE SUPERVISORY BOARD MEMBERS

EDDIE ASTANIN

DATE OF BIRTH:	16 December 1961
EDUCATION:	Mozhaisky Military Engineering Institute, 1984 Institute for Further Training and Qualification Upgrade in Finance and Banking at the Finance Academy under the Government of the Russian Federation, 1996
EMPLOYMENT:	Chairman of the Executive Board, National Settlement Depository Previous positions: 1994 – 2004 – MICEX CJSC 2005 – 2009 – Deputy Director General, Not-for-Profit Partnership National Depository Center 2009 – 2010 – Deputy Director General, Director General, National Depository Center

³ Information on the Supervisory Board members elected on 25 May 2012 is available in NSD's 2012 Annual Report.

SERGEY BEREZHNY

DATE OF BIRTH:	8 August 1967
EDUCATION:	Taras Shevchenko University of Kyiv, 1992
EMPLOYMENT:	General Director, Computershare LLC Chairman of the Board of Directors, CJSC Computershare Registrar

ANNA VYSHLOVA

DATE OF BIRTH:	31 December 1973
EDUCATION:	Lomonosov Moscow State University, 1996 Higher School of Economics, 2008
EMPLOYMENT:	Chief Operating Officer, Renaissance Broker Limited

OLEG VYUGIN (Independent Director)

DATE OF BIRTH:	29 July 1952
EDUCATION:	Lomonosov Moscow State University, 1974 Lomonosov Moscow State University, post-graduate course, 1978
EMPLOYMENT:	Federal State Autonomous Educational Budgetary Institution of Higher Professional Education "National Research University "Higher School of Economics", Professor, Stock Markets and Investment Market Chair Currently also holds positions of Chairman of the Board of Directors, MDM Bank (OJSC), and Chairman of the Board of Directors, NAUFOR Previous positions: Head of the Federal Service for Financial Markets, First Deputy Chairman of the Central Bank of the Russian Federation, First Deputy Minister of Finance of the Russian Federation

BELLA ZLATKIS

DATE OF BIRTH: 5 July 1948

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

EMPLOYMENT: Deputy Chairperson of the Executive Board, Sberbank of Russia

ALEXANDER IKONNIKOV (Independent Director)

DATE OF BIRTH: 5 April 1971

EDUCATION: Gubkin Moscow Oil and Gas University, 1993
Candidate of Economic Sciences
IoD Chartered Director, UKEMPLOYMENT: General Director, Board Solutions CJSC
Previous positions:
1996 – 1998 – Head of Department for Foreign Economic Relations and Investments, Ministry for Fuel and Energy, Russia
1998 – 2001 – Deputy Executive Director, NAUFOR (Russian National Association of Securities Market Participants)
2001 – 2004 – Co-founder/Executive Director, Investor Protection Association in Russia
Since 2005 – Senior Partner, Board Solutions
Chairman of the Independent Directors Association of Russia; Independent Director and Member of the Personnel and Remuneration Committee, Sollers plc., Russia**ALEXANDER NAZAROV**

DATE OF BIRTH: 15 April 1969

EDUCATION: Moscow State Institute of International Relations (MGIMO), 1993

EMPLOYMENT: Director, Depository Services Department, ZAO UniCredit Bank

ANDREI REMNEV (Independent Director)

DATE OF BIRTH: 7 August 1951

EDUCATION: Moscow Finance Institute, 1976

EMPLOYMENT: **Previous positions:**
1999 – 2013 – Director of Depository, Vnesheconombank**VLADIMIR REUTOV**

DATE OF BIRTH: 7 February 1963

EDUCATION: Leningrad Shipbuilding Institute, 1986
International Banking Institute, 1998
St. Petersburg State University, 1998

EMPLOYMENT: Deputy Chairman of the Management Board, BANK St. Petersburg OJSC

EKATERINA SIZOVA (Independent Director)

DATE OF BIRTH: 5 June 1974

EDUCATION: Moscow State Linguistic University, 1996
Financial Academy under the Government of the Russian Federation, 2002EMPLOYMENT: Executive Director, J.P. Morgan Limited
Previous positions:
2001 – 2011 – Head of Securities Management, Renaissance Broker LLC
2011 – September 2013 – Head of Custody, J.P. Morgan Bank International (LLC)

VLADIMIR TATSIY

DATE OF BIRTH:	5 December 1960
EDUCATION:	Moscow Energy Institute, 1984 Institute for World Economy and International Relations of the Russian Academy of Sciences, post-graduate course Candidate of Economic Sciences, 2011
EMPLOYMENT:	First Vice President, GPB (OJSC)

DMITRY TOLOKONNIKOV

DATE OF BIRTH:	27 April 1986
EDUCATION:	Moscow State Law University, 2008 Financial University under the Government of the Russian Federation
EMPLOYMENT:	Vice President, Deputy Head of Law Department, RDIF Management Company Previous positions: 2006 – 2013 – Associate, Freshfields Bruckhaus

NADEZHDA USHAKOVA

DATE OF BIRTH:	6 February 1967
EDUCATION:	State Finance Academy, 1988
EMPLOYMENT:	Senior Vice President, Head of Depository, JSC VTB Bank Previous positions: 1997 – 2004 – Custody, ING Bank (Eurasia) ZAO 2004 – 2009 – Head of Custody, Deutsche Bank LLC

ALEXEY FEDOTOV

DATE OF BIRTH: 16 July 1965

EDUCATION: Moscow Institute of Radio Engineering, Electronics and Automation, 1986

EMPLOYMENT: Head of Securities and Funds Service, ZAO Citibank

Previous positions:

Head of the Depository Department, ABN AMRO Bank ZAO

ANDREI SHEMETOV

DATE OF BIRTH: 18 July 1974

EDUCATION: S. Ordzhonikidze State Management Academy (State Management University), 1996

EMPLOYMENT: Deputy Chairman of the Management Board, Moscow Exchange

Previous positions:

2008 – 2012 – Director General, ATON LLC

The members of the Supervisory Board did not own any shares in NSD.

INFORMATION ON THE EXECUTIVE BOARD MEMBERS (AS AT 31 DECEMBER 2013)

EDDIE ASTANIN, Chairman of the Executive Board

DATE OF BIRTH:	16 December 1961
EDUCATION:	Mozhaisky Military Engineering Institute, 1984 Institute for Further Training and Qualification Upgrade in Finance and Banking at the Finance Academy under the Government of the Russian Federation, 1996
EMPLOYMENT:	Chairman of the Executive Board, National Settlement Depository Previous positions: 1994 – 2004 – MICEX CJSC 2005 – 2009 – Deputy Director General, Not-for-Profit Partnership National Depository Center 2009 – 2010 – Deputy Director General, Director General, National Depository Center

IRINA VEREMEENKO, Director of the Accounting and Reporting Department

DATE OF BIRTH:	24 May 1965
EDUCATION:	Moscow Finance Institute, 1987
EMPLOYMENT:	Chief Accountant, Director of the Accounting Department, Executive Board Member, NSD

NIKOLAY DEGTYAREV, Deputy Chairman of the Executive Board

DATE OF BIRTH: 27 February 1958

EDUCATION: Lomonosov Moscow State University, 1985

EMPLOYMENT: Deputy Chairman of the Executive Board, Executive Board member, NSD
Previous positions:
1996 – 2012 – Deputy Director of the Department, Head of the Unit for IT Support of Financial Markets Transactions of the Market Services Department, Central Bank of the Russian Federation

The members of the Executive Board did not own any shares in NSD.

SHAREHOLDERS

NSD's majority shareholder is Moscow Exchange (99.997 %). The full list of NSD's shareholders is set out in the table below.

On 30 June 2011, the Shareholders Agreement with respect to NSD was executed which sets forth the core principles of corporate governance at NSD agreed upon by the shareholders upon establishment of the company.

The execution of the Shareholders Agreement accompanied by making amendments to NSD's Articles of Association and other internal regulations secured for NSD's customers the right to participate in managing NSD and ensured a balance between the interests of NSD's majority and minority shareholders. Under the Shareholders Agreement, up to five major customers of NSD may become its shareholders every year, thus becoming entitled to participate in managing the company.

The broad representation of securities market participants in NSD's share capital (based on the 'one participant – one share' principle) gives NSD's customers an opportunity to participate in developing NSD's product range and tariffs, i.e., establish control over the price and quality characteristics of NSD's services.

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

In 2013, amendments to NSD's Articles of Association were registered, in accordance with which the following foreign organizations may become NSD's shareholders:

- international centralized systems responsible for recordkeeping of rights in and to securities and/or settling trades in securities; and
- foreign central securities depositories.

As a result of foreign organizations becoming NSD's shareholders, NSD will be able to position itself as a Eurasian (regional) international central securities depository. This will allow NSD to offer foreign investors CSD services for execution of transactions with securities of Russian or other CIS issuers, and also to offer investors from CIS countries services for execution of transactions with foreign securities through accounts held by international or CIS CSDs with NSD.

LIST OF NSD'S SHAREHOLDERS (AS AT 31 DECEMBER 2013)

1	Open Joint Stock Company "Moscow Exchange MICEX-RTS"
2	Gazprombank (Open Joint-Stock Company)
3	Limited Liability Company "Deutsche Bank"
4	"ING BANK (EURASIA) ZAO" (Closed Joint Stock Company)
5	Joint Stock Commercial Bank – Bank of Moscow (open joint stock company)
6	Joint Stock Commercial Bank "ROSBANK" (Open joint-stock company)
7	CentroCredit Joint Stock Commercial Bank
8	VTB Bank (open joint-stock company)
9	Bank for Development and Foreign Economic Activities (Vnesheconombank)
10	ALOR INVEST Ltd
11	CLOSED JOINT STOCK COMPANY "BANK CREDIT SUISSE (MOSCOW)"
12	Closed joint stock company Raiffeisenbank
13	Stock company Saint-Petersburg Currency Exchange
14	Closed Joint Stock Company UniCredit Bank
15	KIT Finance Capital (Limited liability company)
16	Commercial Bank "J. P. Morgan Bank International" (Limited Liability Company)
17	Limited Liability Company "ATON"
18	BrokerCreditService Limited
19	"OOO Morgan Stanley Bank"
20	Open Joint-Stock Company "ALFA-BANK"
21	"Bank "Saint-Petersburg" Open Joint-Stock Company
22	OTKRITIE Brokerage house Joint Stock Company
23	Open Joint-Stock Company "NOMOS-BANK"
24	Open Joint Stock Company Investment Company "ZERICH Capital Management"
25	Sberbank of Russia
26	Open joint stock Company "Sotsinvestbank"
27	INFINITUM Asset Services
28	Closed joint stock company "Sberbank CIB"
29	Evrofinance Mosnarbank
30	"METROPOL" Investment Financial Company Ltd."
31	Renaissance Broker Limited
32	MDM Bank, Open Joint Stock Company
33.	Irkol CJSC
34.	Novyi Registrator CJSC
35.	Professional Registration Center CJSC
36.	JSC "DRAGa"
37.	CJSC "Computershare Registrar"

GENERAL MEETING OF SHAREHOLDERS

The procedures at the General Meeting of Shareholders are governed by the Regulations on NSD's General Meeting of Shareholders approved by the General Meeting.

The General Meeting which approved NSD's Annual Report for 2012 and NSD's auditor was held on 26 June, 2013. The General Meeting also made decisions on profit distribution and dividend payment for 2012, elected the Supervisory Board and the Internal Audit Commission, approved

amendments to NSD's Articles of Association, made decisions on remuneration of the Supervisory Board members, and approved interested-party transactions.

No extraordinary General Meeting of Shareholders was held in 2013.

REGISTRAR

The Registrar maintaining the share register of NSD is Registrar Society "STATUS" Closed Joint-Stock Company.

REPORT ON THE PAYMENT OF DECLARED (ACCRUED) DIVIDENDS ON THE SHARES IN NSD

In accordance with Federal Law No. 208-FZ "On Joint-Stock Companies" dated 26 December 1995, a company may declare dividends on its issued and outstanding shares and is required to pay the dividends so declared.

The annual General Meeting of Shareholders held on 26 June 2013 passed the following resolutions in relation to dividend payment to NSD's shareholders:

NSD would pay RUB 3 billion in dividends to the shareholders out of NSD's net profits for the financial year 2012.

- The amount of the dividends to be paid on NSD's shares was set at RUB 2,540.92 per registered ordinary share before the payment of the dividend income tax in accordance with subparagraph 1 of paragraph 3, Article 284 of the Russian Tax Code.
- The dividends would be payable to the company's shareholders within 60 days following the dividend declaration by the annual General Meeting of Shareholders. The dividends would be payable to the current/correspondent accounts of NSD's shareholders.

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

REMUNERATION OF NSD'S SUPERVISORY BOARD MEMBERS

Federal Law No. 208-FZ "On Joint-Stock Companies" stipulates that upon decision of the General Meeting of Shareholders remuneration may be paid to the Supervisory Board members during their period in office. The amount of remuneration is approved by the General Meeting of Shareholders.

The Supervisory Board, in accordance with the suggestions of the Nomination and Remuneration Committee, made recommendations for the annual General Meeting of Shareholders as to the principles and amount of remuneration payable to the Supervisory Board members in 2013.

The following factors were taken into account by the Supervisory Board members to determine the amount of remuneration:

- membership in the Supervisory Board;

- performance of the functions of the Supervisory Board Chairperson;
- membership in a Supervisory Board Committee;
- performance of the functions of the Head of a Supervisory Board Committee;
- attendance to Supervisory Board meetings; and
- attendance to Supervisory Board Committee meetings.

In 2013, the independent member of the Supervisory Board, Alexander Ikonnikov, was paid remuneration amounting to RUB 2,000,000.

The total remuneration paid in 2013 to the Supervisory Board members amounted to RUB 18 985 729.55.

REMUNERATION OF NSD'S EXECUTIVE BOARD MEMBERS

Remuneration to the Executive Board members is paid in accordance with their employment contracts. In accordance with NSD's Articles of Association, the amount of remuneration is approved by the Supervisory Board.

Remuneration payable to the Executive Board members comprises two components:

- Monthly remuneration (salary) payable for the performance of duties under the employment contract; and

- Performance-based remuneration. Key performance indicators are set by the Nomination and Remuneration Committee of the Supervisory Board. Individual performance targets are set for each Executive Board member, and the amount of remuneration payable to such member depends on whether the performance targets are met.

The total remuneration paid to the Executive Board members in 2013 amounted to RUB 39,119,233.92.

NSD'S SUPERVISORY BOARD COMMITTEES AND OTHER COMMISSIONS AND COMMITTEES

AUDIT COMMITTEE

MISSION

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

MEMBERS

1	ANDREY REMNEV	Chairman of the Committee
2	SERGEY BEREZHNY	General Director, Computershare LLC
3	ANNA VYSHLOVA	Managing Director, Renaissance Broker LLC
4	SVETLANA KISELEVA	Vice-President, Head of the Risks Department, MDM Bank
5	ALEXANDER NAZAROV	Director, Depository Services Department, ZAO UniCredit Bank
6	EKATERINA SIZOVA	Executive Director, JP Morgan Limited
7	DMITRY TOLOKONNIKOV	Vice President, Deputy Head of Law Department, RDIF Management Company
8	NADEZHDA USHAKOVA	Senior Vice President, Head of Depository, JSC VTB Bank

HIGHLIGHTS OF THE YEAR

In 2013, the Audit Committee held 13 meetings and considered 36 matters, in accordance with the pre-approved plan. The Committee meetings were attended by the heads of the relevant departments and NSD's senior managers.

In close cooperation with the Internal Service Division, the controller of NSD as a professional securities market participant and clearing house, the Risk Management Department, and NSD's other departments, the Audit Committee controlled the establishment and development of NSD's functions and systems as a CSD, clearing house, significant payment system operator, and trade repository. Special attention was paid to remedying or minimizing problems faced by securities market participants when transferring their assets to NSD's CSD accounts in shareholder registers. At their meetings, the Committee members, on a regular basis, reviewed plans and performance reports of the relevant departments and proposed changes to their work. In accordance with the Audit Committee's recommendations, NSD's senior management changed the management of the Internal Service

Division. Upon review by the Audit Committee and in accordance with its recommendations, the Supervisory Board approved the new version of the Internal Control Instructions of NSD as a Professional Securities Market Participant and Clearing House, as well as the Internal Control Rules Aimed at Combating Money Laundering and the Financing of Terrorism.

In 2013, the Audit Committee intensified its work in the field of controlling NSD's risks. In particular, the new version of NSD's Portfolio Investment Policy and the new version of the Regulations on the Procedure of Stress Testing of NSD's Economic Risks were approved. In addition, a list of measures aimed at ensuring failure-free operation of NSD's software and hardware was considered and approved. In the field of risk management, the Audit Committee continued making efforts to further improve risk management at NSD and devised the Risk Management Development Strategy for 2014-2015, as well as the methodology for determining the risk appetite. Steps to improve risk management were taken in accordance with the external auditors' recommendations and under supervision of the Supervisory Board.

BUDGET COMMITTEE

MISSION

The Budget Committee's role is to improve the efficiency of NSD's Supervisory Board by ensuring

proper control over the way funds are received and spent at NSD. The Committee thoroughly prepares materials to be considered at NSD's Supervisory Board meetings relating to financial planning and the financial resources management at NSD.

MEMBERS

1	EVGENY FETISOV	CFO, Moscow Exchange, Chairman of the Committee
2	VLADISLAV ZIMIN	Economic Advisor, Market Services Department, Bank of Russia
3	ANDREY PONOMAREV	Deputy Chief of Liquidity and Treasury Operations Division, Sberbank of Russia
4	NADEZHDA USHAKOVA	Senior Vice President – Head of Depository, JSC VTB Bank
5	ALEXEY FEDOTOV	Director, Head of Securities and Fund Services, ZAO Citibank

HIGHLIGHTS OF THE YEAR

In 2013, the Budget Committee held 10 meetings. The Committee's top priorities in 2013 were related to NSD's budget planning and tariff policy.

The Budget Committee's key task for 2014 will be to ensure operational cost-effectiveness of NSD's business while providing earmarked financing for top priority projects. For these purposes, the Budget Committee expects to regularly review NSD's management accounts, including information broken down by projects and current operations.

NOMINATION AND REMUNERATION COMMITTEE

MISSION

In-depth analysis of matters relating to the recruitment, assessment and remuneration of

NSD's senior managers, including Supervisory Board members, the Chairman of the Executive Board, Executive Board members, and members of the Internal Audit Commission, and preparation of materials to be considered at Supervisory Board meetings.

MEMBER

1	ALEXANDER IKONNIKOV	Chairman of the Supervisory Board, Independent Directors Association
2	ALEXANDER AFANASYEV	Chief Executive Officer, Moscow Exchange
3	OLEG VYUGIN	Chairman of the Board of Directors, MDM Bank
4	BELLA ZLATKIS	Deputy Chairperson of the Executive Board, Sberbank of Russia
5	SERGEY LYKOV	Member of the Management Board, Deputy Chairman, Vnesheconombank
6	SERGEY SHVETSOV	First Deputy Governor of the Bank of Russia, Head of the Bank of Russia Financial Markets Service

HIGHLIGHTS OF THE YEAR

In 2013, the Nomination and Remuneration Committee held 7 meetings.

The principal matters considered at the Committee meetings were as follows: recommendations as to the composition of NSD's Executive Board and remuneration payable to the Executive Board members; determining and assessing the Key Performance Indicators (KPI) for NSD's senior

managers; recommendations as to new nominees to the Supervisory Board to be elected at the annual General Meeting in 2013; determining the principles of remuneration of Supervisory Board and Internal Audit Commission members; and recommendations as to the Supervisory Board Members Remuneration and Expenses Reimbursement Regulations.

The Committee Chairman coordinated the efforts to assess the state of corporate governance at NSD based on the 2013 results.

TECHNOLOGICAL POLICY AND DEVELOPMENT COMMITTEE

MISSION

Analysis of development of NSD's IT systems to make sure they meet the needs of financial markets participants, and making recommendations to

the Supervisory Board and the Executive Board on the matters related to the technological policy in the field of creation, maintenance, operation, and development of such IT systems.

MEMBERS

1	ANATOLY KARACHINSKY, CHAIRMAN OF THE COMMITTEE	President, IBS-Group
2	VLADIMIR GIBENKO	IT Director, Renaissance Capital
3	NIKOLAY DEGTYAREV	Deputy Chairman of the Executive Board, member of the Executive Board, NSD
4	EVGENY KOSTENKO	Deputy Director of Information Technologies Center, Bank of Russia
5	VLADIMIR KURLYANDCHIK	Director for Development, ARQA Technologies CJSC
6	SERGEY POLYAKOFF	Member of the Executive Board, Chief Information Officer, Moscow Exchange
7	ANDREY REMNEV	Member of the Supervisory Board, Chairman of the Audit Committee, NSD
8	MIKHAIL KHASIN	Deputy General Director, Sberbank-Technologies CJSC
9	YURI YARTSEV	Chief Technologist, OTKRITIE Trading LLC

HIGHLIGHTS OF THE YEAR

In 2013, the Technological Policy and Development Committee held two meetings, at which the Committee members considered the drafts of the new version of NSD's Electronic Data Interchange Rules and NSD's IT Strategy for the Period until 2016. Upon proposal by the Committee, an IT audit was conducted, following which the key priorities for NSD's technological development

were formulated, and a new IT management system was proposed. In addition, the Committee recommended establishing new joint advisory and consultative bodies in the field of IT, composed of the Moscow Exchange's and NSD's representatives.

The Committee's key task for 2014 will be to complete the transformation of the organizational structure of NSD's IT department and migration to a new IT architecture.

COMMITTEES OF THE EXECUTIVE BOARD

RISK MANAGEMENT COMMITTEE

MISSION

The Risk Management Committee's role is to provide assistance to the Executive Board in the field of corporate risk management. The Committee focuses on improving and strengthening the risk management at NSD and ensuring immediate response to critical risks.

CHAIRPERSON

Maria Krasnova, Deputy Chairperson of the Executive Board.

HIGHLIGHTS OF THE YEAR

In 2013, the Committee held 6 meetings, at which the Committee members dealt with systemic problems related to planning software releases or upgrades and IT failures and posing threat to clients' interests or NSD's financial stability or business reputation. The Committee made recommendations for minimization of incident impact and prevention of incidents in the future. The recommendations were considered and approved by the Executive Board, and all the arrangements were implemented.

RISK MANAGEMENT COMMITTEE FOR PAYMENT SYSTEM

MISSION

The Committee makes recommendations to NSD's executive bodies in the field of risk management in NSD's Payment System, including recommendations as to the eligibility criteria for participation in NSD's Payment System, requirements to payment infrastructure service providers, and issues of information security in NSD's Payment System.

CHAIRPERSON

Ekaterina Maksimova, Director of the Risk Management Department.

HIGHLIGHTS OF THE YEAR

In 2013, the Committee held 3 meetings, at which the following matters were dealt with:

- determining the Committee's priorities for 2013;
- legal, economic, and reputational risks for NSD and Moscow Exchange Group in the event of NSD's Payment System participants failing to comply with the anti-money laundering and terrorist financing rules;
- setting criteria for the assessment of risk management in NSD's Payment System;
- the need for different terms and conditions of funds transfers for those NSD's clients who are NSD's Payment System participants, and for those clients who are not.

TENDER COMMITTEE

MISSION

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

COMMITTEE CHAIRPERSON

Zhanna Klimova, Head of Financial and Business Accounting at NSD.

HIGHLIGHTS OF THE YEAR

In 2013, the Committee held 21 meetings, at which the Committee members dealt with the selection of contractors for NSD's key areas of business and projects (including the Repository and the Center of Corporate Information), as well as contractors for NSD's various administrative, current, and professional needs.

PRODUCT AND PROJECT COMMITTEE

MISSION

The Committee was set up to manage project activities at NSD, including the development of new products and services. The Committee's key role is to assist the Executive Board in deciding on the

project and product management of the company and to ensure that the project implementation and management policies and regulations are complied with.

CHAIRPERSON

Irina Veremeenko, Chief Accountant, Director of the Accounting and Reporting Department⁴.

HIGHLIGHTS OF THE YEAR

In 2013, the Committee held 14 meetings, at which the Committee members determined the scope and groups of projects to be implemented in 2014-2015; considered the road map for 2014-2016 and projects for 2014 and approved the project budget; made amendments to NSD's Policy for Planning Software Development and Improvement, as related to the process automation plan control and monitoring; and discussed measures to be taken to ensure NSD's operational reliability.

COMMITTEES OF THE CHAIRMAN OF THE EXECUTIVE BOARD

UPDATE COMMITTEE

MISSION

The Committee's key role is to mitigate the negative impact that software updates have on the quality of services provided to NSD's clients.

CHAIRMAN

Andrey Shlyappo, Vice President, Director of Operations, NSD.

The Committee's main objectives are:

- analysis of whether control measures used or planned in connection with software updates are adequate; and
- development of measures to mitigate the risk of the negative impact that the software updates have on the quality of services.

The Committee performs the following functions:

- approval of updates proposed to the Committee (including as part of new software release installation);
- additional analysis of the impact any planned updates have on the quality of services; if necessary, collegial development of measures to mitigate the negative impact of each update, and coordination of the efforts of the persons involved;
- approval of a software release composition;
- analysis of failed updates, updates which caused incidents, or updates the impact analysis of which turned out to be incorrect, in order to elaborate necessary management measures;
- analysis of updates applied without proper approval procedures;
- analysis of situations where Committee's decisions have not been complied with; and
- analysis of disputes or conflicts related to the update management or software release composition approval.

⁴ Prior to 23 September 2013, the Committee was chaired by Nikolay Degtyarev, the Deputy Chairman and member of the Executive Board, NSD.

ARCHITECTURAL COMMITTEE

MISSION

The Architectural Committee's key responsibilities are as follows:

- making proposals to ensure failure-free and reliable operation of electronic systems and IT infrastructure critical for NSD's business; and
- making proposals to ensure competitive advantages and leadership for NSD by developing and monitoring the implementation of the IT strategy, introducing and using advanced and promising settlement, depository, and clearing technologies to address the strategic, tactical and operational tasks set before NSD.

CHAIRMAN

Nikolay Degtyarev, Deputy Chairman and member of the Executive Board, NSD.

CUSTOMER COMMITTEES

NATIONAL SETTLEMENT DEPOSITORY CUSTOMER COMMITTEE (CENTRAL SECURITIES DEPOSITORY CUSTOMER COMMITTEE)

MISSION

The Committee is responsible for reviewing and approving internal regulations (amendments thereto) of NSD as a central securities depository, including regulations that require approval by the federal executive authority in charge of financial markets.

CHAIRPERSON

Veronika Vasilieva, First Deputy General Director, Executive Director, Computershare LLC⁵.

HIGHLIGHTS OF THE YEAR

In 2013, the Committee held 6 meetings, at which

the Committee members considered drafts of the following internal regulations of NSD:

- NSD's Electronic Communication Rules;
- Fee Schedule for NSD's services under agreements for depository services in connection with the public offering of securities;
- Fee Schedule for NSD's depository services; and
- NSD's Terms and Conditions of Depository Operations.

CUSTOMER COMMITTEE FOR QUALITY CONTROL AND RISK MANAGEMENT

MISSION

The key role of the Customer Committee for Quality Control and Risk Management is to make recommendations to NSD's Supervisory Board and executive bodies on the following issues:

- NSD's customer policy, in particular, acceptance for servicing and principles of providing services to various types of customers;
- NSD's marketing policy in promoting its services;
- improving customer services and ensuring control of their quality, including in the field of software, hardware and technological support of NSD's activities;
- improving products and services offered by NSD;
- reducing NSD's operational risks in delivering services;
- informing NSD's customers about new products and services, and supporting the promotion of such services in the financial services market;
- approving internal regulations setting out the measures aimed at mitigating credit, operational, and other risks, including risks connected with the engagement both in clearing operations and other areas of business. Such measures include stress testing, measures aimed at ensuring failure-free operation of software and hardware being used in clearing operations, and measures aimed at preventing and resolving conflicts of

¹ Until 19 December 2013

interest that may arise in the course of clearing operations due to the engagement both in such operations and other areas of business; and

- approving internal regulations setting out the measures to be taken by NSD in the event of emergency and aimed at ensuring the continuity of NSD's clearing operations.

CHAIRMAN

Denis Kuznetsov, Head of Depository, CJSC Sberbank CIB⁶.

HIGHLIGHTS OF THE YEAR

In 2013, the Committee held 4 meetings, at which the Committee members dealt with, among others, the following matters:

- approval of a list of measures aimed at ensuring the failure-free operation of NSD's software and hardware;
- approval of a list of measures aimed at preventing and resolving conflicts of interest that may arise in the course of clearing operations due to the engagement both in such operations and other areas of business;
- formats of SWIFT messages for corporate actions;
- plans for the development of the Center of Corporate Information and NSD's information services;
- the results of the introduction of new MT 548 statuses and plans for the development of NSD's instruction matching system;
- standardization of instruction life cycles; and
- providing clients with information on changes in formats used by NSD for the purposes of electronic data interchange before the effective date of such changes.

⁶ Prior to 19 December 2013, the Committee was chaired by Yuri Dubin, Director of Depository, Sberbank of Russia.

CUSTOMER COMMITTEE FOR SETTLEMENT AND DEPOSITORY SERVICES AND TARIFFS

MISSION

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

- liaising with financial market participants for the purpose of studying customers' needs and analysing new market trends; and
- making recommendations to NSD's Supervisory Board and executive bodies on the following issues:
 - development of depository and settlement products;
 - development and standardization of tariffs;
 - marketing policy aimed at offering competitive services; and
 - other issues directly related to NSD's development strategy.

CHAIRMAN

Dmitry Zaliznyak, Head of Depository Services Development Department, CB "J.P. Morgan Bank International" (LLC)⁷.

HIGHLIGHTS OF THE YEAR

In 2013, the Committee held 5 meetings. The Committee's key role was to collect customer feedback regarding the improvement of settlement and information services and to discuss forms of interaction between NSD and its clients. The Committee members also dealt with such issues as new formats of messages for corporate actions; instruction life cycles; introduction of new statuses for instruction matching notifications; and other issues related to the development of NSD's settlement services. In addition, the Committee members discussed and approved various issues related to changes in tariffs and launch of new products.

⁷ Prior to 19 December 2013, the Committee was chaired by Maria Ivanova, Vice President, Director for Development and Client Relations, NSD.

CUSTOMER COMMITTEE FOR REGISTRAR AND DEPOSITORY RELATIONS

MISSION

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

- making recommendations to improve existing methods of interaction between NSD and registrars maintaining securities registers/specialized depositories maintaining registers of unitholders of unit investment funds;
- making proposals to change existing technologies being used for the interaction between NSD and registrars, including electronic data interchange technologies;
- making proposals to develop new technologies aimed at improving the quality of interaction between NSD and registrars/specialized depositories; and
- handling any other issues related to the Committee's tasks.

CHAIRMAN

Yuri Taranovsky, General Director, Reyeestr OJSC⁸.

HIGHLIGHTS OF THE YEAR

In 2013, the Committee held one meeting, at which the Committee members approved the rules of interaction between the central securities depository and registrars.

REPOSITORY COMMITTEE

MISSION

The Repository Committee's primary role is to consider proposals and make recommendations to NSD's Executive Board for the development and improvement of NSD's repository activities.

CHAIRMAN

Ruslan Spynu, Executive Board member, Head of Operations, Goldman Sachs Bank OOO⁹.

HIGHLIGHTS OF THE YEAR

In 2013, the Committee held 7 meetings, at which the Committee members dealt with a wide range of issues, including those related to the regulation and operations of NSD's Repository.

⁸ Prior to 19 December 2013, the Committee was chaired by Maria Ivanova, Vice President, Director for Development and Client Relations, NSD.

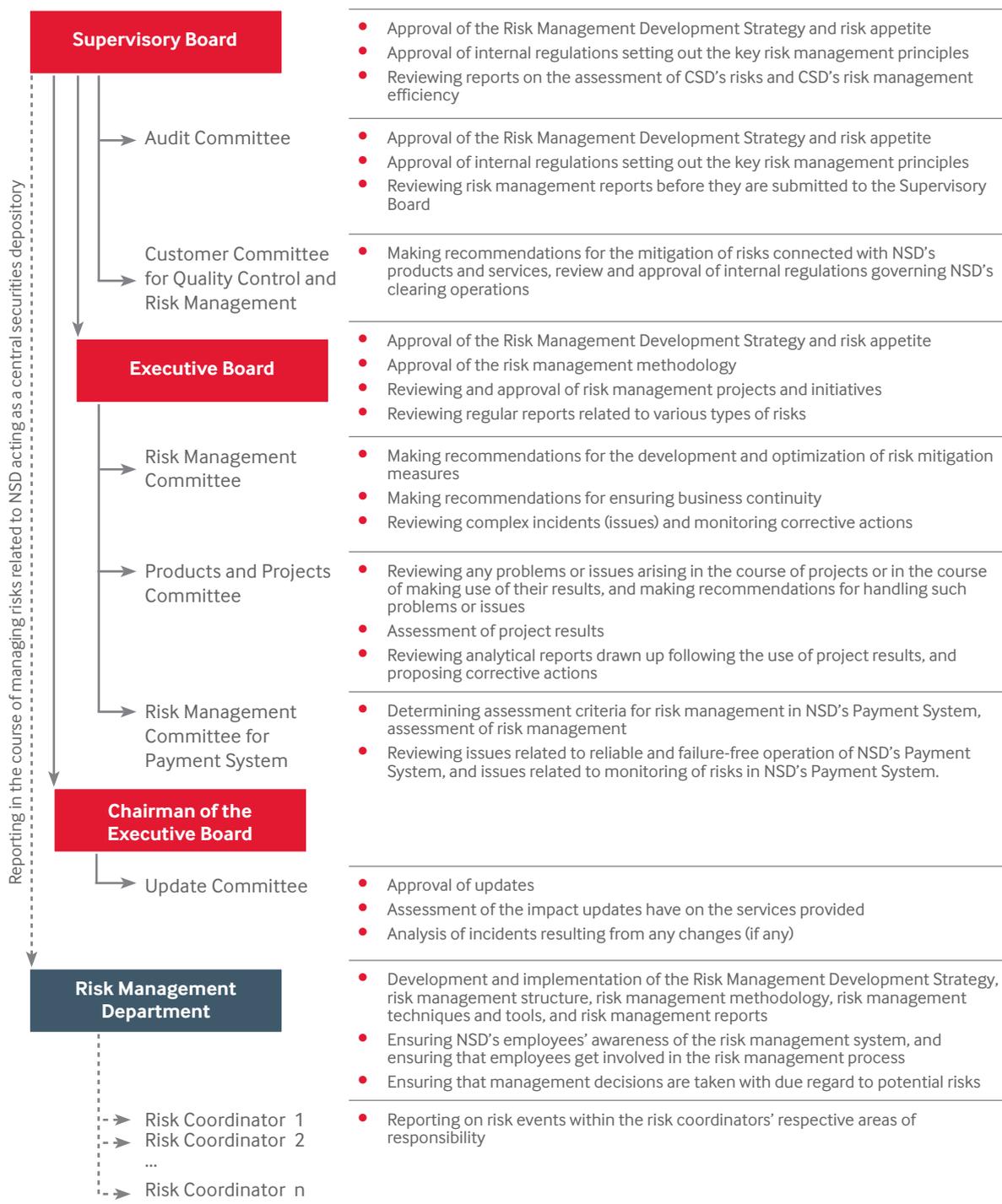
⁹ Prior to 23 March 2013, the Committee was chaired by Pavel Solovyev, Head of Repository Development, NSD.

RISK- MANAGEMENT

The purpose of the risk management at NSD is to ensure the operational reliability and steady and dynamic development of all IT systems and services of NSD as a central securities depository, significant payment system operator, clearing house, and trade repository. To that end, NSD applies a comprehensive approach to identification, assessment, mitigation, and control of risks in the course of NSD's operations. Risk management

is implemented in all business processes and at all levels, including at the level of NSD's senior managers and employees (including risk-oriented audit). NSD takes steps to constantly improve risk management, including through cooperation with Moscow Exchange Group members and using professional consulting services provided by Thomas Murray, independent external audits, and feedback from financial market participants.

RISK MANAGEMENT ORGANIZATIONAL STRUCTURE AT NSD



— Administrative reporting - - - - - Functional reporting

For the purpose of implementing an efficient risk management system, NSD has in place a multilevel risk management structure, which includes the Supervisory Board, executive bodies, special-purpose committees, the Risk Management Department, and responsible employees.

The Supervisory Board and the Executive Board are responsible for shaping the corporate culture that is based on the efficient management of risks at all levels within the company. The Supervisory Board determines the key risk management principles and monitors compliance with such principles at all decision-making levels.

The key risk management principles include:

- Risk management in compliance with the applicable guidelines issued by regulators and in accordance with the international best practices and standard.
- Continuous and end-to-end risk management.
- Application of consistent methodological approaches to identification, analysis, assessment, monitoring, and the control of risks.
- Integration of the risk management system into the management decision-making process.
- Involvement of all of the company's employees in the risk management process.
- Designation of a single department responsible for risk management (Risk Management Department).
- Ensuring the functional independence of the Risk Management Department from other departments.

- Regular independent assessment of the adequacy and efficiency of the risk management tools and techniques by internal and external auditors.

The executive body ensures that an efficient and reliable management structure is in place, with precisely defined, transparent, and consistent areas of responsibility. The executive body is responsible for the consistent implementation and application, at all levels of the company, of the principles, processes, and systems for managing risks inherent to all of the company's significant products, areas of business, processes, and systems, in accordance with the risk appetite levels determined by the Supervisory Board.

To certify the efficiency of the risk management system, the system in general and its components are subjected to a regular independent assessment by internal and external auditors.

The Risk Management Department plays the key role in building and developing the risk management system. The Department coordinates the risk management process on an end-to-end basis and develops the risk management methodology. One of the Department's priorities is to ensure the maximum involvement of NSD's employees in the risk management process. In performing its functions, the Risk Management Department acts in accordance with the international best practices and standards in the area of risk management, such as the recommendations of the Basel Committee on Banking Supervision, ERM COSO, and CPSS IOSCO Principles for Financial Market Infrastructures.

NSD'S RISK MANAGEMENT CLASSIFICATION AND RISK MANAGEMENT APPROACHES

NSD's risk management structure includes the following components:

- Development of a company's strategy
- Company's risk management strategy and risk appetite
- Risk management methodology and organizational structure
- Risk identification
- Risk analysis and assessment
- Risk monitoring and control
- Risk management reporting

RISK TYPE	DISTINCTIVE FEATURES OF RISK MANAGEMENT
OPERATIONAL RISK	<ul style="list-style-type: none"> • analytical database • risk and control self-assessment • list of risks and controls • key risk indicators • risk assessment for new products/processes • regular reporting
LEGAL RISK	<ul style="list-style-type: none"> • analysis of risks arising due to differences between the Russian laws and the laws of (or business practices in) foreign jurisdictions with residents of which NSD has any contractual relationship • standard agreement templates • internal procedures for the approval of legal documents affecting NSD • a formal procedure for making the necessary amendments to NSD's internal regulations following any changes in laws
REPUTATIONAL RISK	<ul style="list-style-type: none"> • compliance with the 'know your customer' principle • monitoring of positive and negative reports on NSD in mass media or other sources • ensuring the accuracy of financial statements or other information disclosed to clients, counterparties, regulatory or supervisory authorities, or other stakeholders • monitoring of changes in Russian laws

RISK TYPE	DISTINCTIVE FEATURES OF RISK MANAGEMENT
STRATEGY RISK	<ul style="list-style-type: none"> • engagement of a sufficient number of qualified internal and external experts for the purposes of developing a strategy • ensuring that procedures are in place for a regular review of the strategy and assessment of deviations from the strategy • current planning in support of the strategy, and setting tasks to strategic business units in accordance with the strategy
MARKET RISK	<ul style="list-style-type: none"> • limit policy • investment exposure to financial instruments • early warning indicators • stress testing • risk degree assessment and regular reporting
CREDIT RISK	<ul style="list-style-type: none"> • making provisions for NSD's credit risk bearing assets • limit policy • risk degree assessment and regular reporting
LIQUIDITY RISK	<ul style="list-style-type: none"> • NSD's investment criteria and investment policy • liquidity ratio limits • stress testing • risk degree assessment and regular reporting

KEY RISK AREAS AND MAIN FOCUS

Like any other organization, NSD faces various risks in its business operations on a daily basis. To efficiently respond to risks, it is vital to identify

risks in due time and, whenever possible, prevent risk events.

PERSONNEL

- Adequate level of process and operation automation
- Highly qualified and skilled personnel
- Staff interchangeability
- Employees performing their duties in accordance with their job descriptions
- Prevention of conflicts of interest

PROCESSES

- Optimal business processes, including a level of their formalization, and efficiency of controls
- Risk-oriented approach to the development of new products and technologies
- Meeting the requirements imposed by law, Articles of Association, and internal regulations
- Efficient strategic planning
- Strategy implementation monitoring

IT SYSTEMS

- Reliability of IT systems
- Efficient change, incident, and issue management processes
- Protection of NSD's information against unauthorized access, leakage of confidential information, and destruction or distortion of information
- Up-to-date system disaster recovery plan

EXTERNAL CIRCUMSTANCES

- Preparedness to operate in emergency situations, including business processes and system disaster recovery
- Monitoring of compliance by clients and/or counterparties with their contractual obligations
- Prompt identification of negative facts related to clients' and/or counterparties' business reputation
- Prevention of third parties' behavior causing damage to the company
- Ensuring regulatory certainty in any aspects affecting the company's business

RISK MANAGEMENT ACHIEVEMENTS IN 2013 AND PLANS FOR 2014

One of the key achievements in 2013 was the approval by the Supervisory Board of the Risk Management Development Strategy for 2014-2015. The Strategy supports the principal business

strategy of NSD and takes into account the results of the risk management audit conducted by ZAO KPMG in 2012.



■ Shaping a risk-oriented culture and contributing to NSD's efficient and sustainable development by using the best risk management practices

■ Risk management:

- Independent expert
- Partner for NSD's departments
- Agent of initiatives and changes

■

- Risk management process fully integrated into the business and IT
- Personal responsibility of managers for risk management as part of their duties
- Management remuneration based on risk management quality

■

- Thomas Murray rating
- Credit rating
- ISAE3402 TYPE II certification
- Compliance with the Principles for Financial Market Infrastructures

■ Tactical tasks for strategy implementation

STRATEGIC VISION

Strategic initiatives cover NSD's key priorities:

1. Ensuring operational reliability
2. High quality of products and services
3. Regulatory compliance
4. Responsibility to stakeholders
5. Efficient cooperation with Moscow Exchange Group members

Some of the achievements in the field of risk management in 2013 were the result of the first year of NSD operating as a CSD. In particular, NSD, with assistance from Bank of Russia's representatives, carried out a self-assessment to make sure NSD meets the Principles for Financial Market Infrastructures; implemented a regular CSD risk management reporting to the Supervisory Board; developed a payment system risk management methodology; and set up the Risk Management Committee for Payment System.

The next step in the reporting year was the improvement of risk management tools and methods. In particular, we changed the process of collection and analysis of information concerning risk events, implemented a risk identification and assessment process for new products and projects, self-assessed risks and controls in the key areas of NSD's business, and set up a list of controls.

We paid much attention to the involvement of staff in the risk management process. In particular, we developed a multilevel training program for NSD's top managers, risk coordinators, and newly hired and existing employees. We issue a monthly risk management newsletter, and NSD's employees are actively involved in the risk management process at all stages, including at risk identification, assessment, monitoring, and control stages.

In the reporting year, an operational audit of NSD was conducted in accordance with the ISAE 3402 standard, and the resulting assurance report will be posted on NSD's web site early in 2014. Also, upon the annual audit conducted by Thomas Murray, NSD's rating of AA- (very low overall risk, with stable outlook) was affirmed.

In 2014, NSD will have plenty of areas to address to improve risk management. Some of the work was started in 2013. In particular, we developed an approach to risk appetite and a list of risks unacceptable for NSD; the approach is to be approved by the Supervisory Board, following which the Risk Management Department will have to arrange for the monitoring of risk levels. The introduction of the Principles for Financial Market Infrastructures and preparations for an operational audit (which will include independent testing of controls at NSD) will be of a paramount importance. In addition, to make senior managers more personally responsible for the quality of risk management, NSD is planning to set the relevant key performance indicators for 2014.

BUSINESS CONTINUITY

In 2013, much attention was paid to the development of NSD's regulatory framework to ensure business continuity and disaster recovery. In particular, NSD approved both new regulations and amendments to the existing ones, including amendments to NSD's Payment System Rules describing processes of monitoring, controlling, and responding to incidents affecting the failure-free operation of the payment system. To achieve the business continuity targets, NSD applies advanced methodologies developed by internationally recognized organizations and the best practices.

Some other steps taken in the reporting year included a large-scale rebuilding and extension of NSD's backup site, significant extension of the structured cabling system, purchase and installation of new equipment, and major repairs of the existing premises. Such modernization resulted in, among other things, improved performance of the backup site's software and hardware systems.

In 2013, various tests were run at NSD aimed at the improvement of reliability of services provided by the company:

1. Testing of the emergency alerting of the Emergency Management Committee and NSD's employees.
2. Testing of personnel response to emergencies in accordance with the business continuity and disaster recovery plans of NSD's departments.
3. Testing of interaction between Moscow Exchange Group members and the Bank of Russia in the event of emergencies.
4. Testing of the uninterrupted power supply system at NSD.

The test results confirm the high level of reliability of NSD as a CSD.

NSD is committed to integrating the business continuity systems into the corporate culture, and maintains a close relationship with NSD's clients and NSD's Payment System participants, which includes, among other things, consulting on business continuity aspects.

IT INFRASTRUCTURE DEVELOPMENT



“ In 2013, the Executive Board approved NSD’s IT Strategy for 2014–2016. NSD has an ambitious goal to transform IT into a single well-oiled mechanism that meets the best international practices and is capable to satisfy any business needs with the highest quality and in a timely fashion. Apart from the introduction of ITSM standards in accordance with which an IT function is treated as a set of business services, we will be working on such large-scale projects, as the Center of Corporate Information and creation of an automated system for corporate actions processing. ”

SERGEY PUTYATINSKY

IT Director

NSD's key objectives in the field of information technologies (IT) include ensuring the prompt and failure-free settlement of clients' trades, introduction of new services, automation of information gathering, processing, and

transmission processes with the help of new information technologies, and the improvement of performance and reliability of software and hardware systems.

REPOSITORY'S SOFTWARE PLATFORM

In mid-2013, a Repository's software platform was brought into commercial operation, which allows NSD to register all types of trades. Late in the reporting year, a Repository Web-Client was launched, the use of which does not require installing any additional software, other than cryptographic tools. The remote-access Luch

software and the Repository Web-Client use technologies for the automated generation of on-screen forms based on a file containing document formats. This technology has allowed to significantly speed up the creation of on-screen forms of Repository documents and promptly making necessary changes to document formats.

CHANNELS OF COMMUNICATION WITH CLIENTS

In June 2013, NSD launched the Web-Service, a fully-featured solution for communication between NSD and its clients. Independent software developers now can integrate access to NSD's

electronic data interchange (EDI) system into their own software. Migration to the Web-Service for communication with NSD will guarantee the delivery of messages to their intended recipients.

CRYPTOGRAPHIC DATA PROTECTION SYSTEM

In the summer of 2013, the Moscow Exchange Group upgraded its cryptographic data protection system. Now, along with cryptographic tools that meet the Russian GOST standards, it is possible to use cryptographic tools developed by Microsoft. This move will allow NSD's EDI system to be used by Russian non-residents.

In the second half of 2013, NSD started the process of migration to TLS servers to ensure traffic encryption for remote access. TLS servers support both cryptography cores – the one based on the Russian GOST standards, and the RSA cryptography core. Migration to TLS and https allows clients to more easily fine-tune their software for access to NSD's services.

At the same time, the Moscow Exchange Group migrated to the use of a new certificate format that meets the statutory requirements.

DEPOSITORY AND CLEARING SOFTWARE PLATFORM

From March 2013 through to January 2014, NSD worked on the performance optimization of the Alameda platform designed for depository and clearing recordkeeping. To choose the best hardware platform, one month was spent for load testing with analysis of optimization options; and for this purpose Oracle experts and server equipment suppliers were engaged. As a result, thanks to the migration of DBMS servers supporting depository and clearing operations to LINUX and HP 3Par data storage systems, we achieved a five-fold increase in performance. Data replication between

the main data center and the backup data center is implemented at the hardware level, which reduces the load on database servers. Data replication is set for synchronous processing, thus minimizing the risk of data loss in the event of system failure.

In 2013, NSD brought a liabilities recordkeeping system into commercial operation. The launch of this technically complex solution required making changes to virtually all key software modules being used at NSD.

SYSTEM FOR ELECTRONIC SETTLEMENT

The Automated System for Electronic Settlement (ASES) is NSD's principal software and hardware platform that operates online and is designed to automate the process of cash settlement of clients' on-exchange or OTC trades.

In 2013, more than 30 new features were added to the ASES, including:

- the possibility to settle trades in the securities market using a single set of communication

rules and a single set of messages for interchanging data and making transactions in Russian rubles, USD, and other currencies (in particular, Euro);

- an optimized process of communication between NSD's departments that supports electronic data interchange between various systems in the course of securities transaction settlements with issuers.

SWIFT TERMINAL

In the reporting year, NSD introduced a system of comprehensive monitoring of NSD's SWIFT terminal platform. The system is designed for centralized monitoring of the state of servers, software, network devices, data storage systems, uninterrupted power supply units, printers, and other elements of the SWIFT terminal platform. The new monitoring system replaced a set of independent solutions from different vendors

with a single world-class solution. The new monitoring system has reduced the time needed for support personnel to respond to failures thanks to the availability of prompt and complete information. In addition, support personnel can now fully understand the current state of the SWIFT platform thanks to the centralized acquisition and visualization of monitoring data

COMMUNICATION WITH REGULATORY AUTHORITIES

Late in 2013, NSD completed the preparatory works for the commercial launch of a platform for electronic data interchange with the Russian

Federal Treasury via the Public Information System for State and Municipal Payments (GIS GMP).

INTERNATIONAL COOPERATION

2013 for NSD was a year of international integration. The efforts taken over the year can be classified into three main types: (1) building relationships with the international financial community; (2) implementing international standards; and (3) running a special-purpose campaign to inform the global investment community about the new Russian market infrastructure configuration.

The success achieved by NSD in the international arena is acknowledged by FTSE Global Markets magazine that named NSD among twenty most influential global financial market players in 2013.

MEETING INTERNATIONAL STANDARDS

To make sure NSD is fully integrated into the international community, special attention has been paid to meeting international standards. The official CSD status was the decisive argument to recognize NSD as an eligible securities depository under SEC Rule 17f-7 which allowed U.S. investment funds to directly invest in Russian securities. In 2013, Thomas Murray, a specialist

custody rating, risk management and research firm, affirmed NSD's rating of AA- (very low overall risk, with a stable outlook). NSD has been paying much attention to meeting the CPSS-IOSCO requirements. At least once every two years, NSD requests one of the leading global audit firms to conduct the operational audit of NSD in order to ensure compliance with the ISAE 3402 standard.

COOPERATION WITH INTERNATIONAL DEPOSITORIES

NSD's efforts to build relationships with the international financial community can be classified into two sets of activities: developing relationships with foreign CSDs and establishing an NSD-based regional liquidity hub for Eurasian countries.

As part of the first set of activities, the year 2013 was marked by a milestone event for the Russian market, as the largest global players – Euroclear and Clearstream – opened their foreign nominee accounts with NSD. The first step towards making the Russian market more appealing to foreign investors became the Russian federal loan bonds (OFZ) market liberalization.

Another milestone event was the launch of a direct communication channel with the Austrian CSD, through which the Austrian CSD's clients now have direct access to all Russian securities.

As part of the second set of activities in 2013, NSD signed memorandums of understanding with the CSDs of Belarus, Ukraine, Kazakhstan, Kyrgyzstan, and Azerbaijan. In addition, the process of signing a cooperation agreement with the CSD of Armenia was at the final stage at the end of 2013.

COOPERATION WITH THE INTERNATIONAL INVESTMENT COMMUNITY

Close cooperation with international financial community players is the key to a successful integration into the community. In 2013, NSD was the organizer of the XII International Conference of Central Securities Depositories (CSD12) in St. Petersburg. The conference is traditionally attended by representatives of the largest infrastructure organizations from all over the world to share their experience and discuss new challenges and opportunities for the post-trade industry. The conference in St. Petersburg was attended by 230 delegates from almost 70 countries.

NSD pays special attention to developing its relationships with the members of the Association of Eurasian Central Securities Depositories (AECSD).

The X International Conference of the AECSD organized by NSD in 2013 became an excellent forum for building relationships across the Eurasian region and discussing the idea of a simplified access for foreign investors to the regional capital markets.

NSD's international activities were not limited to the professional community. In the second half of 2013, a team of NSD's top managers held road shows for investors from financial centers of the USA (New York and Boston), Europe (London), Middle East (Dubai), and Asia (Bangkok and Singapore). During the road shows, NSD's representatives told foreign investors about the large-scale changes taking place in the Russian market and aimed at making the market more appealing to investors.

NSD'S MEMBERSHIP IN INTERNATIONAL ASSOCIATIONS AND OTHER ORGANIZATIONS

Membership in industry associations (including the international ones) is essential as it allows NSD to adopt the best international practices and standards and ensure NSD's successful integration into the global markets. NSD is a member of the leading international organizations in the post-trade industry, including::

- World Forum of CSDs (WFC);
- European Central Securities Depository Association (ECSDA);
- Association of Eurasian Central Securities Depositories (AECSD);
- Association of National Numbering Agencies (ANNA);
- International Securities Services Association (ISSA);
- Russian National Securities Market Association (NSMA);
- Russian National SWIFT Association (ROSSWIFT); and
- SWIFT SCRL (Society for Worldwide Interbank Financial Telecommunication).

INTERNATIONAL CONSULTING COMMITTEE

Early in 2012, NSD established the International Consulting Committee. The ICC members include representatives of eight largest foreign global custodians and investment banks. The ICC's principal goal is to promote the use of international best practices for the purpose of improving the Russian securities market infrastructure and services offered by NSD as a central securities depository.

In 2013, the ICC held two meetings, at which the ICC members formulated their recommendations on such issues as the opening of foreign nominee

accounts for international custodians and central securities depositories, information disclosure (in particular, the set up of the NSD-based Center of Corporate Information), taxation in the Russian market, and other important issues.

The recommendations have provided the basis for NSD's staff's further efforts aimed at improving NSD's products and services, working on legislative initiatives, improving NSD's operational performance, and ensuring that the Russian market infrastructure meets the international standards.

NSD'S ACTIVITIES AS A MEMBER OF THE ASSOCIATION OF NATIONAL NUMBERING AGENCIES (ANNA)

NSD AS THE NATIONAL NUMBERING AGENCY FOR RUSSIA

NSD has been a member of the Association of National Numbering Agencies (ANNA) from November 2010 as the universal legal successor to NDC that had been a member of ANNA since 1999. NSD acts as the National Numbering Agency (NNA) for Russia and the Substitute Numbering Agency (SNA) for the CIS countries in accordance with the powers granted to NSD (and earlier NDC) by the regulators of those countries. In addition, NSD takes part in ANNA's projects in the field of development and application of international standards in financial markets, and attends and votes at ANNA's general meetings.

As the National Numbering Agency for Russia, NSD assigns, in accordance with ISO 6166 and ISO 10962, ISIN and CFI codes to securities of Russian issuers and other financial instruments issued or registered in the Russian Federation. NSD arranges for free access to the database containing information on the international securities codes

assigned by NDC, submits information on assigned securities codes to the ANNA's global database, and keeps current the information on the ISIN and CFI codes submitted thereto.

As of 1 January 2014, the total number of ISIN and CFI codes assigned by NSD was 1,003.

ASSISTANCE IN QUALIFYING FOREIGN FINANCIAL INSTRUMENTS AS SECURITIES

As a member of the Association of National Numbering Agencies, NSD provides assistance to securities market participants in recognizing foreign financial instruments qualifying as securities.

These services include:

- providing, upon request, information on the ISIN and CFI codes assigned to foreign financial instruments; and
- assisting in assigning ISIN and CFI codes, where no such codes have been previously assigned.

NSD AS THE SUBSTITUTE NUMBERING AGENCY FOR THE CIS COUNTRIES

NSD is authorized by ANNA to act as the Substitute Numbering Agency (SNA) for the CIS countries, which do not have their own National Numbering Agencies or in which the existing NNAs are unable, whether temporarily or permanently, to perform the entire range of functions the NNA is expected to perform.

As the SNA for the CIS countries, NSD is entitled to provide the following services:

- assign ISIN and CFI codes to financial instruments issued by issuers of the country concerned, and submission of such codes to the ANNA's global database;
- if necessary, represent the country concerned at ANNA General Meetings; and
- provide advisory assistance in setting up the country's NNA.

CORPORATE SOCIAL RESPONSIBILITY

For the corporate sector, Corporate Social Responsibility (CSR) is becoming increasingly important from year to year. When NSD became Russia's CSD, it had an effect on all areas of the Company's activities, including CSR. In that respect, NSD seeks to expand the scope of its activities from year to year and avoid confining itself to just one activity.

Based on the results of 2013, NSD's charitable efforts were hailed by the organizers of the Corporate Charity Leaders Project set up by the Vedomosti business newspaper, PriceWaterhouseCoopers, and Donors Forum, the not-for-profit partnership of donor organizations.

For many years now, NSD has been providing charitable assistance to the two orphanages under its sponsorship, i.e., the Udelnoe Specialized Children's Home and special (correctional) residential school No. 53 for orphaned children and social orphans. NSD provides financial support to the orphanages needed to purchase various equipment and children's items or to renovate and refurbish the dormitory premises, and helps arrange special entertainment events and educational programmes for the children.

For instance, in 2013, NSD provided the funds needed to buy winter wear, computers and New Year's gifts with various sweet treats for the residents of orphaned children's home No. 53, and to renovate the dorms, purchase household appliances and New Year's gifts for the Udelnoe Specialized Children's Home. In addition, during last year, NSD arranged two excursions for the children residing in the Udelnoe Specialized Children's Home. In late 2013, a group of children

was taken to an elk farm, where the children's home residents saw and learned many new and interesting things about the life of these animals. Last December, NSD was visited by the residents of the Udelnoe Specialized Children's Home. The children from the sponsored orphanage were taken on a tour of NSD's departments and had a meeting with the Chairman of NSD's Executive Board. The Company's employees told the children about what the securities depository does in a plain and understandable way. Apart from the depository tour, the children were offered a very good entertainment programme, which included a visit of the Cathedral of the Theophany in Elokhovo, Moscow, and the Alexander Pushkin Library. Such meetings are very important for the orphaned children: the children deprived of parental love and care should feel that their lives matter much for grown-ups who care and take an interest in their life.

NSD provided charitable assistance to the Illustrated Books for Little Blind Children Regional Charity Foundation. Visually impaired children from specialized preschool institutions received ten sets of coloured illustrated embossed books of the series «Atlas of Perception of Illustrations». NSD also provided charitable assistance to the Gorchakov School in St Petersburg to purchase computers and now the school's pupils could be able to use brain developing and educational software.

Apart from the sponsored orphanages, NSD has one more long-term charitable project, in which it provides, on an annual basis, assistance to the Moscow State University of Geodetic Surveying and Cartography needed to develop its sports facilities.

HUMAN CAPITAL INVESTMENT



“ Success of any company, especially at the active growth stage, depends largely on the quality of the personnel: its qualification, efficiency, potential, the level of loyalty to the company, and the motivation to take on even more complicated and ambitious tasks. In this context, NSD’s HR policy aims at providing the top level of employees and executives ready to handle any challenges and meet the market needs. ”

IRINA ANTONOVA

HR Director

HR MANAGEMENT

The Human Resources management policy is intended to deliver staffing stability at the Company and a high professional and managerial level of its employees and officers.

As of 31 December 2013, the employee headcount at NSD¹⁰ amounted to 516 persons.

The average age of NSD's employees is 40 years, with 93 percent of employees holding a university degree.

For the past few years, the average staff turnover, which is measured on a regular basis, has remained flat at 5.5 percent. As part of its operational risk monitoring process, NSD also calculates the staff turnover rate for its certain key departments. This figure has also remained very low and stable for a considerable period of time.

NSD's employee incentive programme, which includes both financial and non-financial incentives, is aimed at recruiting and retaining highly-qualified workforce and incentivizing employee performance.

NSD employee incentive policy is based on the following principles:

- a modern approach: its internal grading system helps implement an effective and transparent incentive mechanism where certain financial incentives, social benefits and other perquisites are linked to the position's grade;
- an up-to-date incentive system: NSD endeavours to keep up with current labour market trends by taking part in annual salary reviews and, if necessary, adjusting the remuneration of its employees and revising the employee benefits package in line with the market level;
- transparency of the employee incentive system: the employee remuneration and non-financial incentives system is governed by the Company's internal rules and regulations which are posted on its intranet and all employees must read and acknowledge their understanding of such documents.

PERFORMANCE MANAGEMENT

«Performance» is a key work in the Company's corporate lexicon. As a measure to implement the Company's strategy, ensure that the Company develops and meets its undertakings, NSD has put in place a Key Performance Indicators (KPI) system. Each employee has to use their best endeavours to ensure that the KPI targets are met. Based on the year's results, taking into account the achievement of

the corporate and individual KPIs, employees become entitled to bonus payments. As part of the overall performance review process, each employee's work is measured using the criteria included in the corporate model of competences and corporate values. The results of the annual performance review are used as a basis for formulating the employee training and development programme for the next year.

¹⁰ This includes all staff members (including part-time employees, employees on maternity/parental leave, and temporary employees).

PERSONNEL SELECTION SYSTEM

The personnel selection and onboarding system

- competitive selection for vacancies;
- a multilevel interviewing and testing system;
- onboarding for new employees, etc.

In 2013, NSD implemented a Graduate Program. During the course of the Graduate Program,

NSD invited the best students from Moscow's top universities – Higher School of Economics, Plekhanov Russian University of Economics, Financial University under the Government of the Russian Federation, and Lomonosov Moscow State University – to be interns. It is now possible for NSD to select and invite the most promising young graduates to work in entry level jobs.

DEVELOPMENT OF THE CORPORATE TRAINING SYSTEM

One of the top priorities for NSD in its HR policy is enhancing its personnel development and training system. 2013 saw continued dynamic development of the corporate training system at NSD, which resulted in a significant increase in professional expertise and personal efficiency of its employees and officers.

Investments in human capital, the Company's core asset, made 1.14 percent of the total personnel expenditures. The Company's employee training programme covers the following three areas: seminars on professional activities; trainings on managerial skills, and trainings on personal efficiency development.

In 2013, the Company continued its corporate education programmes – the «English Study» programme for employees learning English, the «Focus on Leadership» corporate training programme for managers, and internal trainings to develop personal skills. The English Study programme had 83 participants; the Focus on Leadership managerial programme had 115 participants; and the internal trainings to develop personal efficiency skills were attended by 52 employees; basic level certificates and special certificates in depository activities were issued to 10 employees.

The Company pays strong attention to gaining access to the best global expertise in organizational management. During the period under review, a number of top managers attended training in such educational institutions as the Independent Directors Association, Russia, and the Harvard Business School.

To improve interaction within the organization and enhance the internal services, NSD introduced the customer loyalty metric, Net Promoter Score. The NPS survey is held on a quarterly basis and is intended to enhance efficiency of interaction among neighbouring departments.

To improve the level of managerial interaction, in 2013, NSD introduced the «360-Degree Feedback» assessment system.

The Company's employees actively participate in international and Russian forums and conferences. NSD managers are always willing to respond to invitations to make reports, participate in discussions on key issues of business development and share their success stories.

DEVELOPING CORPORATE CULTURE

The Company's openness is an important element of its corporate policy. The highest priority is given to the level of employee awareness and engagement, and all key corporate events, decisions and processes are covered in media articles and management speeches, during meetings with employees, in photo reports, etc.

2013 saw continued strong development of the HR-Info section on NSD's intranet. The section

contains most of the Company's HR policies, internal rules and regulations, Frequently Asked Questions on its personnel policy, and information on the officers responsible for various aspects of HR management.

In 2013, NSD held the Recognition Awards to nominate and name the best employees, project teams and departments at the Company. This project will see further development in 2014.

GENERAL INFORMATION ON NSD'S ACTIVITIES

INFORMATION DISCLOSURE

In October 2013 the Supervisory Board approved the new version of NSD's Information Disclosure Rules pre-approved by the Russian Federal Service for Financial Markets (Order No. 13-498/pz-i dated 13 November 2013). The Rules set out the procedure for information disclosure, i.e. provision of the following information to an indefinite or unlimited number of concerned parties:

- information to be disclosed by NSD in accordance with the Russian statutory requirements; and
- information disclosed by NSD on its own accord or upon request by a party concerned.

To ensure compliance with the Rules, the Chairman of the Executive Board approved the Procedure for Preparation, Verification and Approval of Information to Be Disclosed by NSD as a Central Securities Depository. The Procedure sets out a list of information (data, facts, documents, or other informational materials) to be disclosed by NSD and designates employees responsible for preparation, verification, and approval of information to be disclosed.

The Rules establish that NSD upholds the principle of information transparency to shareholders, clients, business partners, counterparties, government authorities, NSD's employees and other concerned parties, in accordance with the following rules:

- information disclosure shall be in line with NSD's and Moscow Exchange's development strategy (goals and objectives);
- information to be disclosed shall be accurate and available;
- information shall be disclosed in a timely fashion and on a regular and non-discriminatory basis;
- a reasonable balance shall be maintained between NSD's transparency and business interests of NSD and of the Moscow Exchange as a whole;
- Russian laws and regulations concerning trade and banking secrets and insider information, as well as NSD's internal regulations governing the handling of confidential information, shall be complied with;
- professional ethics standards shall be followed; and
- communication channels shall allow free, easy and low-cost access for concerned parties to disclosed information.

In addition to common communication channels, NSD discloses information and communicates with counterparties via popular social networks: Twitter, LinkedIn, and Facebook.

AUDIT

INTERNAL AUDIT COMMISSION

The Internal Audit Commission is the controlling body responsible for exercising internal control over NSD's financial and business activities. Members of the Internal Audit Commission are elected at annual General Meetings of Shareholders. The members of the Internal Audit Commission as at 31 December 2013 are:

1. Olga Gordienko, Chief Accountant, Moscow Exchange.
2. Inna Danilova, Head of the Consolidated Budgeting and Management Accounts Department, Moscow Exchange.
3. Vladimir Sukhachev, Head of the Internal Audit Service, Moscow Exchange.

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

EXTERNAL AUDITORS AND MATERIAL ASPECTS OF INTERACTION WITH EXTERNAL AUDITORS

A special committee has been set up to select independent auditors for the companies of the Moscow Exchange Group for 2011–2013, which arranged a competitive tender among the 'Big Four' audit firms. In the course of the tender, the committee assessed the bids made by the audit firms by assigning points using a special methodology. The maximum number of points was received by Ernst & Young Vneshaudit CJSC.

At its meeting held in 2013, the Audit Committee decided to suggest to NSD's Supervisory Board that the annual General Meeting of Shareholders approve the appointment of Ernst & Young Vneshaudit CJSC as auditors for NSD for the period until the annual General Meeting of Shareholders in 2014.

On 26 June 2013, the annual General Meeting of Shareholders approved the appointment of Ernst & Young Vneshaudit CJSC to audit the company's RAS and IFRS financial statements for the period until the annual General Meeting of Shareholders in 2014.

FULL NAME	ERNST & YOUNG VNESHAUDIT CLOSED JOINT-STOCK COMPANY
SHORT NAME	Ernst & Young Vneshaudit CJSC
REGISTERED OFFICE	77 Sadovnicheskaya Naberezhnaya, bldg. 1, Moscow 115035
TELEPHONE AND FAX NUMBERS	Tel.: (495) 755-97-00 Fax: (495) 755-97-01
E-MAIL	moscow@ru.ey.com
AUDIT LICENSE NUMBER, DATE OF ISSUE AND EXPIRY DATE, OR THE FULL NAME AND ADDRESS OF THE SELF-REGULATORY ORGANIZATION OF AUDITORS IN WHICH THE AUDITOR HAS (HAD) MEMBERSHIP	Non-Profit Partnership "Audit Chamber of Russia" (ACR) Pursuant to the resolution of ACR Board dated 20 May 2009, Membership Certificate No. 3027. Address: 3/9 Tretiy Syromyatnicheskij pereulok, bldg. 3, Moscow 105120
FINANCIAL YEAR FOR WHICH THE AUDITOR CONDUCTED AN INDEPENDENT AUDIT OF THE STATUTORY ACCOUNTING BOOKS AND FINANCIAL STATEMENTS UNDER THE RUSSIAN LAWS AND IFRS	2011, 2012, and 2013

Ernst & Young Vneshaudit CJSC is a member of Non-Profit Partnership "Audit Chamber of Russia" (ACR). Ernst & Young Vneshaudit CJSC is registered by ACR in the Register of Auditors and Audit Organizations under registration number 3027 and included in the master copy of the Register of Auditors and Audit Organizations under identification number 10301017410.

Ernst & Young Vneshaudit CJSC is authorized under Russian laws to conduct independent audits of NSD's accounting system, financial statements (accounts) and tax reports, the financial results, and NSD's internal control system, as well as to prepare and present an auditor's report on NSD's financial statements and a detailed information report to the Moscow Exchange's CEO.

Ernst & Young Vneshaudit CJSC does not have any significant common interests with NSD or the Moscow Exchange Group.

Audit services are provided under an Audit Services Agreement. An audit is only intended to express an opinion on the validity of NSD's financial statements and on whether the accounting records are maintained by NSD in compliance with the applicable Russian laws. Validity means the degree of accuracy of the data contained in the financial statements which enables a user of such financial statements to make conclusions, on the basis of such data, regarding NSD's performance results, financial position, and assets, and make informed decisions. During the audit period, the auditors also examine the tax accounting books and tax reports filed by NSD in the forms required (i.e., tax returns,

tax calculations, etc.) and determine whether any tax relief was obtained lawfully.

An audit includes several phases:

- Phase 1: audit of the state of accounting and controls, account balances, disclosed financial statements and tax filings for the first nine months of a financial year;
- Phase 2: audit of the state of accounting and controls, account balances, disclosed financial statements and tax filings for 12 months of the financial year; and
- Phase 3: audit of the IFRS consolidated financial statements.

For the purposes of conducting an audit, NSD designates an employee to be in charge of liaising with NSD's divisions and ensuring that the information needed for the audit is delivered in a timely fashion.

Based on the results of the audit, the auditor prepares an auditor's report and a detailed information report.

Under the Audit Services Agreement, the auditor undertakes to strictly comply with the laws of the Russian Federation and other regulations, including Federal Law No. 307-FZ "On Audit Activities" dated 30 December 2008 and the Audit Rules (Standards). Furthermore, the auditor is required to:

- ensure that any documents received by the auditor in the course of an audit are kept safe and returned in due course, and that their contents or any other information are not disclosed without NSD's consent, except as provided by the Russian laws;

- if so requested by NSD, supply NSD with the necessary information on the requirements of the Russian laws with respect to the conduct of audits (including tax audits), and references to the regulations on which the auditor's comments and conclusions are based; and
- inspect to the full extent the documents related to NSD's financial and business activities and the availability of any assets recorded in such documents.

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

The auditor determines, at its own discretion, forms and methods of an audit based on the requirements imposed by the applicable Russian laws and regulations, subject to the specific terms and conditions of the Audit Services Agreement.

In the course of an audit, NSD undertakes that it will make the relevant arrangements and provide assistance to the auditor to ensure that the financial and tax audits are completed in a timely fashion and in full. NSD provides the auditor with all the information and documents requested and needed for the audit, provides full clarifications and confirmations as may be requested by the auditor, and requests any information necessary for the audit from third parties.

INTERNAL CONTROL

NSD's internal control system takes account of the nature and scope of business of NSD as a non-banking credit organization, central securities depository, and a professional securities market participant.

The company's internal control system is aimed at achieving the following goals:

- ensuring the efficiency and effectiveness of NSD's financial and business activities when processing banking, depository or other transactions; the effectiveness of assets and liabilities management (including securing the safety of assets); and managing the bank and other inherent risks, i.e.:
 - identifying, measuring and determining risks having a material effect on NSD's activities which, if materialized, may result in losses and/or decline in liquidity due to the occurrence of adverse events;
 - continuous monitoring of banking risks; and
 - taking measures to maintain banking risks at a level which does not pose a threat to the company's financial stability and the interests of NSD's clients, counterparties, or shareholders;
- ensuring that financial, accounting, depository, statistical, tax, and other reports (intended both for external and internal users) are prepared and submitted in a reliable, complete, objective and timely manner;
- compliance with the applicable laws and regulations, standards of self-regulatory organizations, and NSD's constitutional documents and internal regulations;
- preventing involvement of NSD and its employees in unlawful activities, including money laundering and terrorist financing, and ensuring timely submission of information to the government authorities and the Bank of Russia in accordance with the Russian laws;
- preventing the adoption of rules and/or exercise of practices which might encourage behaviour that violates Russian laws;
- maintaining information security at NSD; and
- compliance with the Russian securities market laws, including the rules and regulations adopted by the federal securities market regulator, Russian laws protecting rights and legitimate interests of investors in the securities market, advertising laws, and NSD's internal regulations.

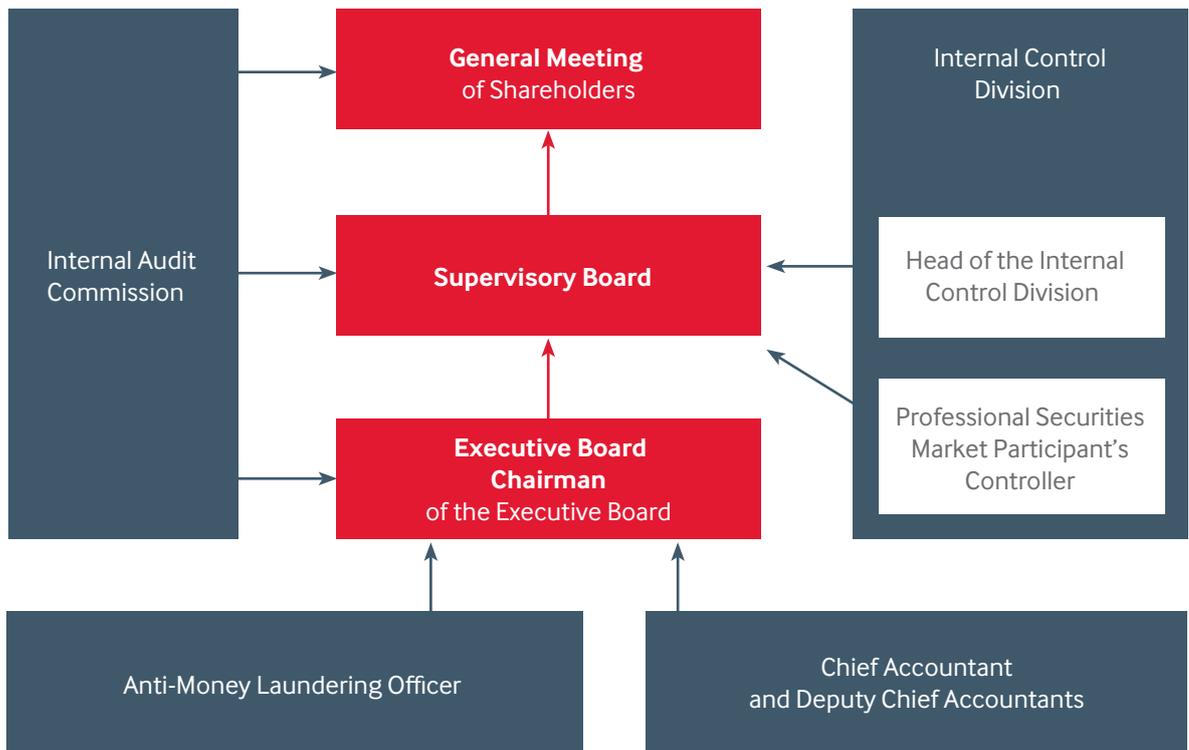
In 2013, the Internal Control Division (ICD) comprised two functional units responsible for control over NSD's depository operations and internal audit of NSD's activities as a credit organization.

In accordance with the international practices, NSD applies a risk-oriented audit approach.

A strict system of ICD's accountability to NSD's management bodies has been put in place.

The accountability of internal control bodies is shown in the chart below.

INTERNAL CONTROL AND ACCOUNTABILITY



INFORMATION SECURITY

The work to ensure information security (IS) at NSD is organized in accordance with Russian laws, the package of standardization documents issued by the Bank of Russia (entitled "Ensuring Information Security of Organizations Being Part of the Banking System of the Russian Federation") ("BR ISBS Package"), and NSD's Information Security Policy approved by the Supervisory Board on 25 March 2011 (Minutes No. 5/2011).

The IS activities are primarily intended to ensure the security of clients' assets, as well as the security of the company's banking, depository, settlement and information systems.

The Information Security Service is entrusted with creating an effective system to manage IS risks and conducting work designed to counter any possible threats. In accordance with the requirements set out in the BR ISBS Package, the Information Security Service is actively involved in developing terms of reference, implementing hardware and software, and performing

an expert review of contracts and agreements. It regulates processes designed to separate users' access, sets up and maintains information protection tools, allocates access rights, and maintains key information.

To maintain and raise the achieved IS level, NSD works on the development of information protection tools being used in the course of operating automated systems. In the reporting year, a vulnerability analysis system was successfully implemented, the automated IS event monitoring system was improved, an automated system for recording access rights and users' rights was implemented, the trial testing of the centralized access control system (IDM class) was commenced, and a confidential information leakage prevention system was implemented. The said improvements has allowed to raise the IS level at NSD as a whole and the level of security of the key IT systems in particular; and significantly reduce regulatory and operational risks arising when using computer hardware.

To ensure IS in the open space office environment, there are controls in place aimed at preventing unauthorized access to confidential information. In addition, NSD has expanded the scope of application of the IS arrangements, tightened control over the activities of information resource users, and improved the efficiency of responding to any shortcomings discovered. Following the completion of audits, reports are prepared and submitted to the relevant persons. Such reports constitute the basis for making changes to the controls aimed at protecting confidential information.

The Information Security Service on a regular basis improves the methodological support of NSD's operations. In particular, the Information Security Service regularly analyzes legislative and regulatory changes on the basis of which necessary amendments are made to NSD's internal regulations.

In 2013, due to changes in the regulatory requirements, the structure of internal regulations was changed and updated.

NSD takes steps to increase employees' awareness of the IS-related issues. To that end, special distance learning courses in the field of personal data processing have been prepared. 92% of NSD's employees have completed, and been tested as part of, the courses.

In 2013, a self-assessment of the IS level was conducted to make sure that the requirements set forth by Bank of Russia's Regulations No. 382-P "On the Requirements to Information Security in the Course of Making Funds Transfers and the Procedure of Monitoring by the Bank of Russia of Compliance with Such Requirements" dated 9 June 2012 were complied with. The self-assessment was conducted with the help of experts from ZAO NIP Informzashchita. It was found that the IS level was adequate and met the applicable requirements.

PREVENTING NSD'S INVOLVEMENT IN UNLAWFUL ACTIVITIES

COMBATING MONEY LAUNDERING AND TERRORIST FINANCING

In 2013, the Russian Federation laws aimed at preventing unlawful financial transactions were materially amended in order to increase the transparency of legal entities' activities. In particular, new definitions "beneficial owner" and "freezing (blocking) of non-cash funds or uncertificated securities and assets" were introduced, and the list of information required for the purpose of identifying legal entities was extended.

In the reporting year, NSD was actively involved in ensuring compliance with the Russian Federation laws on anti-money laundering and terrorist financing ("AML/TF"). By taking account of the nature of NSD's and its clients' business, a new version of the Internal Control Rules and some other related internal regulations were approved.

On-going analysis of our clients' activities and transactions is intended to mitigate the risks relating to money laundering and terrorist financing and increase the effectiveness of NSD's internal AML/TF controls. In particular, in the event that there are signs that clients are engaged in suspicious activities, NSD meets with such clients and takes steps to terminate their remote access to NSD's services and suspend their participation in the payment system. NSD is also authorized to take certain other measures in accordance with the Russian Federation laws and Bank of Russia's recommendations.

NSD also undertook other activities to implement the KYC approach. Due to changes in the applicable AML/TF laws, much attention was paid to identifying beneficial owners, obtaining information regarding clients' business reputation, and analysing the objectives of clients' financial and business activities.

Special attention is paid to conducting statutory checks of clients against the List of Organizations and Individuals Believed to Be Involved in Extremist Activities or Terrorism and the List of Resident Foreign Trade Participants.

In 2013, NSD was taking measures to identify transactions subject to mandatory control and transactions meeting the applicable statutory criteria, and submitted timely reports on such transactions to the Federal Financial Monitoring Service of the Russian Federation (Rosfinmonitoring), along with information on refusals to enter into a bank account agreement in accordance with the applicable laws

In 2013, efforts were continued to automate AML/TF-related processes. The priorities in this field include the improvement of identification process control and mandatory reporting process automation.

In addition, efforts were taken to provide training and further education to NSD's employees in the field of AML/TF, including in third-party organizations.

COMBATING INSIDER DEALING AND MARKET MANIPULATION

In the reporting year, NSD took efforts to ensure compliance with the requirements set forth by Federal Law No. 224-FZ "On Combating Insider Dealing and Market Manipulation and on Making Amendments to Certain Laws of the Russian Federation" dated 27 July 2010 and the related regulations governing activities in the financial markets.

A responsible person (compliance officer) was designated at NSD to monitor the compliance with Federal Law No. 224-FZ dated 27 July 2010

and the regulations adopted to implement it. The Supervisory Board was provided with quarterly reports from the compliance officer.

Due to the changes made to the Russian Federation laws in accordance with which the Bank of Russia became responsible for regulating financial markets, the following internal regulations of NSD were amended:

- the List of NSD's Insider Information;
- the Procedure for Access to Insider Information;
- the Rules for Protecting Confidentiality of Insider Information at NSD and Monitoring Compliance with Federal Law No. 224-FZ dated 27 July 2010 and the Regulations Adopted Pursuant to it;
- the Instructions for Combating Insider Dealing and Market Manipulation for NSD's staff and individuals working with NSD under civil law-regulated contracts;
- NSD's internal process regulations:
 - the Procedure for Listing and Delisting of Individuals and Legal Entities as NSD's Insiders;
 - the Procedure for the Provision of the List of NSD's Insiders to Exchanges at which Financial Instruments and Foreign Currencies are Traded;

- the Procedure for Giving Notice on NSD's Transactions with Financial Instruments;
- the training course "Combating Insider Dealing and Market Manipulation" for NSD's staff.

In the reporting year, NSD provided exchanges, upon their request, with lists of NSD's insiders within the time limits set forth by the federal executive authority in charge of financial markets.

Other measures were also taken related to the maintenance of insider lists, in particular:

- arrangements were put in place to ensure that NSD's insiders were given notices that they had been included in or removed from NSD's insider list;
- steps were taken to control whether NSD was correctly included in other entities' insider lists; NSD analysed whether the grounds for including NSD in such insider lists were in compliance with the laws of the Russian Federation, and reviewed the lists of insider information with a view to determine whether NSD might have access to such information); and
- records were made of notices of inclusion in/ removal from NSD's insider list.

NSD'S INTERESTS IN OTHER ENTITIES

Details of NSD's interest in other entities are shown in the table below.

DETAILS OF NSD'S INTERESTS IN OTHER ENTITIES

ENTITY'S FULL AND SHORT NAME	REGISTERED OFFICE	INTEREST IN THE SHARE CAPITAL, %
Closed Joint Stock Company "Depository Clearing Company", DCC	12 Spartakovskaya Street, 105066 Moscow, Russian Federation	99.998
Stock Company Saint-Petersburg Currency Exchange, SPCEX SC	12/23 Sadovaya Street, 191023 St. Petersburg, Russian Federation	2.005
SWIFT SCRL (Society for Worldwide Interbank Financial Telecommunication)	Avenue Adèle 1, 1310 La Hulpe, Belgium	0.005

MATERIAL EVENTS AFTER THE REPORTING DATE

- Completion of the Withholding Agent project. In accordance with the Russian Tax Code, NSD started acting as a withholding agent when paying out income on equity or debt securities.
- Signing of a cooperation agreement and establishment of correspondent relations with the CSD of Armenia.
- Launch of cross-border settlement for Russian corporate and municipal bonds with Euroclear.
- Launch of cross-border settlement for Russian corporate bonds with Clearstream.
- Launch of information services of the Center of Corporate Information.
- Intensification of efforts aimed at improving the system of matching incoming instructions. The plans are to provide detailed information on matching statuses and make certain improvements to simplify the instruction matching process.