



The National Depository Centre

Thomas Murray CSD Public Rating for : The National Depository Centre is A+

Proprietary CSD Rating	Overall Rating	Asset Commitment Risk	Liquidity Risk	Counterparty Risk	Financial Risk	Operational Risk	Asset Servicing Risk
CDS Rating:	A+	A+	A+	A	AA-	A+	AA-

The outlook for the rating is: Stable

Overall Risk Summary

Thomas Murray has affirmed the National Depository Center's (NDC) rating at A+, which means low risk. The outlook is Stable. The rating is a weighted average of six distinct risk components comprised of Asset Commitment Risk, Liquidity Risk, Counterparty Risk, Financial Risk, Operational Risk and Asset Servicing Risk.

NDC has made substantial progress over the past year in particular in the areas of financial and operational risk. Financial risk has been strengthened by the increase in insurance coverage to USD 25 million in August 2006 and the increase in capital to RUB 916 million (approx USD 35 million) as at the end of 2006. Profits have also continued to increase with safekeeping fees representing an important portion of the total revenue. In addition, the cost of the new settlement system, which is being developed by Tata Consulting Services (TCS), has been spread over a three-year period with a large part already having been paid. As a result of these factors the Financial Risk rating has improved from A+ to AA-.

In terms of operational risk, the internal audit department staff numbers increased by one member during the past year and an external operational audit was carried out by Deloitte, which found no significant deficiencies in respect of the internal control objectives. The test of the disaster recovery plan was improved by the involvement of a small number of participants, although the business continuity plan remains a weakness in the area of operational risk. Overall, the changes to the components, particularly in respect of the improved audit arrangements, have meant that Operational Risk rating has improved from A to A+.

NDC operates a single end of day batch which starts following the completion of trading at 6.00pm. Since trading positions have to be fully pre-funded, the maximum asset commitment period is 9 hours from 10.00am to 7.00pm while the minimum is one hour from 6.00pm to 7.00pm for both buyers and sellers. The settlement batch was brought forward on 26 March 2007 by one hour due to the earlier end to trading at 6.00pm. Liquidity risk is reduced for on-exchange transactions by the netting of both securities and the pre-funded requirement. Off-exchange settlements have higher liquidity risk due to the gross settlement of securities and cash and the absence of settlement fail mitigation procedures such as buy-ins and securities lending and borrowing. Counterparty risk is controlled by the use of a DVP settlement although participants are exposed to the MICEX Settlement Chamber, although its activities are limited to cash settlement and its funds are held with the CBR.

NDC acts as paying agent for CBR bonds, most municipal bonds except Moscow bonds and most corporate bonds. They also provide information to participants in respect of corporate actions information received from registrars as a nominee holder and accepts liability in accordance with the Russian Civil law. Since NDC mainly covers fixed income securities, which are limited to mandatory events, the scope for risk in this area is lower. The potential for risk could be augmented should NDC increase its provision of voluntary corporate action services related to equities.

Outlook Summary

The overall outlook for the National Depository Center (NDC) rating is 'Stable'. NDC has a number of projects currently under development which may have a positive impact on its risk profile, although the impact will depend on the success of their implementation.

A gross settlement mode is to be implemented in conjunction with MICEX, which is planned for the third quarter of 2007. This mode will be optional for participants and will imply settlement on a gross basis immediately after the trade has been executed. Although the shorter process will reduce the asset commitment period, the trade for trade settlement will imply higher liquidity demands.

In terms of counterparty risk, the National Clearing Centre (NCC), a subsidiary of MICEX and NDC, is to start operations as a central counterparty this year for the FX market with the plan to expand into the government debt market at a later stage.

NDC has recently completed, or has underway, a number of initiatives intended to strengthen its financial position including; a planned increase of its capital level to RUB 1.5 billion by 2008 and increasing the amount of its insurance coverage to USD 50 million in August 2007, which will improve the entity's ready access to additional financial resources should they be required.

NDC has been successful in recent years in converting almost 80% of its registration activity with registrars to an Electronic Document Interface (EDI), which has substantially reduced the time required for transfers while reducing the costs risks inherent in completing physical transfers. NDC is currently in testing with an additional group of registrars which is expected to expand usage of EDI. NDC asset servicing to participants is also becoming more automated, sourcing corporate action information directly from registrars in electronic form. However, the absence of mandatory rules for issuers related to the method and format of statutory filings in Russia results in all too frequent manual intervention in the processing.

Offsetting these positive developments were other developments that could result in uncertainty for NDC:

- The ownership structure is likely to be changed with CBR expected to relinquish its direct ownership of NDC shares following a recommendation from the general prosecutor's office.
- In the longer term, the CSD law is likely to allow only one central securities depository in Russia within four years of the legislation being adopted.
- Finally, although the pre-funding model serves NDC in reducing liquidity and counterparty risk for the classic market trades, this model could come under considerable stress if trading volumes increase substantially.

Role of the Depository

The National Depository Center (NDC) is a not-for-profit partnership, although it is to change its legal status from a non-for profit enterprise to a joint stock company after 2007 to comply with the requirements of the Central Securities Depository law. NDC began operations in March 1998. Later in 1998, the NDC partnership was joined by several major domestic commercial banks.

NDC performs the functions of a central securities depository and clearing house for government bonds denominated in roubles (GKO's and OFZs), corporate bonds, some issues of municipal and regional bonds and acts as the depository for equities which are traded on the MICEX Stock Exchange (Equities traded on the RTS system settle in DCC).

NDC was legally established under the Foundation Agreement and the Charter of NDC. NDC's operations as a securities depository are governed by the Civil Code, the Federal Law on the Securities Market, Federal Law on the Joint Stock Companies, Federal Law on Non-Commercial Organisations, government decisions and various other regulations. NDC is regulated by the Federal Financial Markets Service (FFMS) of the Russian Federation in respect of domestic issues. NDC also acts as the National Numbering Agency for allocation of ISIN and CFI codes for the Russian Federation.

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

MICEX acts as the clearing house via, controlling the DVP process for Rouble settlements of on-exchange trades. The Settlement Chamber of MICEX (a company with a limited banking licence) handles cash settlement and NDC processes securities transactions and acts as a settlement depository for MICEX. NDC acts as clearing house for off-exchange trades, controlling the DVP process. Use of NDC is compulsory for government, corporate, municipal and regional bonds and equities traded on MICEX.

NDC has a depository license, but there is no entity in Russia that has the status of a CSD, as this concept does not exist in the current Russian Federal Law, although this remains an objective of the regulator. Instead, each stock exchange has its own settlement depository (for securities transfers) and settlement chamber (for cash transfers). The main two trading and settlement infrastructure groupings in Russia are MICEX and NDC and RTS which settles trades via DCC.

Risk Summary	Risk
Overall Risk	A+
Asset Commitment Risk	

<p>For on-exchange settlements, participants are exposed to intra-day asset commitment risk due to the requirement to pre-fund both their securities and funds sub-accounts prior to trading. The asset commitment period for off-exchange settlements for the seller is short (maximum 10 minutes), while the exposure for the buyer is negligible.</p>	A+
<p>Liquidity Risk Liquidity risk for on-exchange settlements in the classic market is low since both securities and cash are pre-funded and immediately available for settlement on a net basis. Liquidity risk for off-exchange trades is higher due to the gross settlement and the absence of other liquidity improving mechanisms such as securities lending and borrowing and buy-in procedures.</p>	A+
<p>Counterparty Risk Counterparty risk between participants is reduced by the pre-funding requirements before trading for on-exchange transactions in the classic market and the effective DVP arrangements. However, due to the pre-funding requirement brokers also suffer counterparty risk against the MICEX Settlement Chamber and NDC, which manage the cash and securities accounts, respectively.</p> <p>For off-exchange settlements, there is full counterparty exposure if the participant chooses to settle on an FOP basis. If settled DVP, there is no risk of principal loss, but some consequential losses may occur since there are no fails management mechanisms. Also there are no minimum capital requirements for participants imposed by NDC and little or no monitoring of participants.</p>	A
<p>Asset Servicing Risk For asset servicing, the liability is not limited to just gross negligence under local regulations and NDC has some insurance to cover this liability. NDC is an active recipient of information from issuers and registrars and takes responsibility for its accurate and timely dissemination to participants once it has received it to the extent required under Russian Civil Law and its procedures, set in accordance with the agreements signed with participants. Usually it is not mandatory for participants to pass instructions via NDC when it acts as paying agent since interest payments are mandatory corporate events and in turn NDC is liable for direct losses that arise from its role as an intermediary.</p> <p>NDC does not provide tax reclaim services. It does offer a proxy voting service, but it is not currently used by participants.</p>	AA-
<p>Financial Risk NDC's net capital at RUB 916 million (USD 35 million) in 2006 seems adequate for the market and is expected to be increased to the average of the European CSDs (RUB 1,500 million or USD 55 million) by 2010. Future revenues are largely assured since about half of income is from safekeeping fees of fixed income securities for which NDC acts as a head depository, which have fixed term contracts with the issuers. They are currently making significant investments in infrastructure as they are in the midst of a major project to re-engineer their systems which is currently scheduled to run until the end of 2008.</p>	AA-
<p>Operational Risk NDC has reported that it has internal control procedures in place to mitigate operational risk. Financial reviews and audits are carried out at regular intervals by internal and external auditors. Operational audits are undertaken by the Internal Controller and NDC has recently engaged external auditors to undertake a point in time audit on operational controls. Additional audits are arranged periodically (approximately every two years) by Ingosstrakh Insurance as part of their insurance process with the last being done in 2004. NDC shares a DRP facility with MICEX and conducts DRP tests twice annually, the most recent being in February 2007.</p>	A+
<p>CSD on CSD Credit Risk NDC has a one-way link with Clearstream Banking S.A. and the Central Securities Depository of Kazakhstan.</p> <p>It also has a settlement link with DCC, its fellow Russian depository.</p>	No Links

Asset Commitment Risk

Summary

For on-exchange transactions, which account for the majority of settlements, the asset commitment period ranges between 9 hours (from 10.00am to 7.00pm) to one hour (6.00pm to 7.00pm) caused by the requirement to pre-fund both their securities and funds sub-accounts prior to trading. The asset commitment period for off-exchange DVP settlements for the seller is short (maximum 10 minutes), while the exposure for the buyer is negligible. The asset commitment period for FOP settlements is potentially very long but it is impossible to determine since there is no link between the securities and cash transfers.

Processing Cycles

NDC operates two settlement mechanisms for Rouble (RUB)-denominated transactions:

(1) For on-exchange trades, settlements are on a Model 3 basis, multilateral net settlement of securities and net settlement of cash across participants' accounts at the MICEX Settlement Chamber. The DVP is controlled by MICEX by checking that there are sufficient securities and cash in the participants' sub-trading account before trading takes place, except for negotiated market trades with settlement codes B0-B30 and repo market trades with settlement codes S0-S2.

(2) Off-exchange trades are all treated as OTC settlements. Settlement is on a Model 1 basis with near-simultaneous gross settlement of securities and cash. The DVP process is controlled by NDC, which checks that there are sufficient securities and cash in the participants' accounts before settlement takes place. No pre-funding is required for OTC settlements.

(1) On-exchange trades:

Trading of shares and corporate bonds take place via the MICEX Stock Exchange in three different markets: classic market, negotiated market and repo market. Trading takes place between 10.30am and 5.45pm for the classic market, 10.00am and 6.00pm for the negotiated market and between 10.00am and 6.00pm for the repo market.

Secondary trading of GKO/OFZ bonds (government securities) must be conducted at MICEX and the trading schedule is determined by the Bank of Russia. Sessions are held daily from 11.00am to 1.00pm and from 1.00pm 4.45pm, clearing and settlement occurs on the same day (i.e., SD = TD) from 1.30pm to 2.00pm, from 4.30pm to 5.00pm, and from 5.30pm to 6.00pm. Trading continues during the settlement periods. An additional trading session is held daily from 6.00pm to 8.00 pm for REPO trades against the Bank of Russia. Clearing and settlement for these transactions, takes place on the same day from 8.30pm to 9.00pm (if necessary).

Trades are locked-in and the information is sent electronically to NDC and the MICEX Settlement Chamber. Matching takes place at MICEX and there is no need for participants to confirm trades to NDC. This settlement model involves interaction between three institutions: MICEX as a trading system and clearing house, NDC as a securities depository and the MICEX Settlement Chamber as the cash settlement system for Roubles.

NDC also settles transactions from the St Petersburg Currency Exchange (SPCEX) -some Bonds issue only-and Siberian Interbank Currency Exchange (SICEX) -currently not active.

Settlement varies according to the market used for trading, as follows:

-Classic Market:

For the Classic Market, MICEX requires pre-delivery of the securities to be sold, into the sub-trading securities account of the authorised broker (participant) at NDC and the pre-payment of funds to cover purchases into the authorised broker's sub-trading cash account held with the MICEX Settlement Chamber before 8.30am on TD. There is a possibility to transfer additional funds to the cash account with the MICEX Settlement Chamber and securities to the securities account with NDC during MICEX trading sessions.

The settlement cycle in the classic market is T+0.

Prior to the trading sessions, the cash balances in the trading accounts of MICEX members are reported by the MICEX Settlement Chamber to MICEX (by 8.30am on TD) and the balances in the securities trading sub-accounts by NDC (by 8.30am on TD). If there are insufficient securities or cash in the sub-account, trading cannot take place.

Although all securities in the trading sub-account are impacted, participants may request transfer of uncommitted securities from the trading sub-account to their main account or another account (including DCC-NDC Bridge transfers) during the day (from 8.30am to 6.00pm), but MICEX checks the net position of the brokers before allowing the transfer to occur. This process takes around three minutes to complete.

Participants can also add securities into the trading sub-account throughout the day (from 8.30am to 6.00pm) if they expect

to increase their settlement obligations.

After 6.00pm, MICEX will calculate the net settlement obligations for participants and will send (from 6.20pm to 6:40pm) this information electronically to NDC for the securities positions and the MICEX settlement chamber for the cash positions. Transfer of securities and cash occurs near-simultaneously prior to 7.00pm and both NDC and the MICEX Settlement chamber confirm settlement to MICEX by 7.10pm once the process is completed. Formal unblocking of trading sub-accounts occurs 5 minutes following the completion of the settlement process.

Under this settlement model it is MICEX that effectively controls the DVP process, not NDC.

-Negotiated market:

The negotiated market includes all trades that are effected on an OTC basis (e.g. agreed on the phone by the counterparties) but recorded in the MICEX system. Trades in the negotiated market do not need to be pre-funded and can have a longer settlement cycle (from T+0 to T+30).

On SD, trades due for settlement that day in the negotiated market are included in the netting process that occurs at the end of the day (around 6.00pm) and are netted together with all trades executed in the classic market if there are sufficient securities and cash in the participant's account. However, since pre-funding is not required, trades can fail. If there are insufficient securities and cash on SD, the trade is postponed until SD+1, but it is cancelled if the fail persists.

DVP for trades executed in the negotiated market is controlled by MICEX.

-Repo market:

Repo trades are also registered on the MICEX system and can have a settlement cycle between T+0 and T+180 days, although usually, the first leg of the repo settles T+0 while the second leg may have a longer cycle. Trading of shares and corporate bond repos takes place daily between 10.00am and 6:00pm.

Repo trades settled at the same time as equities and corporate bonds (i.e. from 6.20pm to 7.10pm). Settlement is on a multilateral net basis and the DVP is controlled by MICEX.

-Government bonds and money market instruments:

Trading of government bonds and money markets instruments takes place via MICEX between 11.00am and 4.45pm. They can have a settlement cycle between T+0 and T+2. The first leg requires pre-funding while no pre-funding is required. For the second leg, settlement is on a multilateral basis via two intra-day batches at 1.45pm and 5.30pm. MICEX calculates the net settlement positions and instructs NDC to transfer the securities positions as well as the MICEX Settlement Chamber to transfer the funds from the buyer's to the seller's account.

The DVP is controlled by MICEX.

(2) Off-exchange settlements:

Off-exchange trades in Roubles do not require pre-funding and can have any settlement cycle. Off-exchange trades can settle on a FOP and a DVP basis (officially known as 'transfer with control of cash settlements' occurs on a model 1 basis (i.e. gross settlement of securities and cash) with cash settlement taking place via the MICEX Settlement Chamber.

NDC requires that both buyer and seller send settlement instructions to NDC, while only the buyer has to send a settlement instruction to the MICEX Settlement Chamber. NDC will then match both instructions on the same day the trade is input. The deadline for sending settlement instructions to the MICEX Settlement Chamber is 6:00pm and to NDC by 6.40pm.

On SD, once NDC receives confirmation from the MICEX settlement chamber that there are sufficient funds in place in the buyer's account, NDC will block or keep in reserve the relevant securities in the seller's account and will send a cash transfer instruction to the MICEX Settlement Chamber. Following confirmation from the settlement chamber of the successful transfer of funds, NDC will then transfer the securities from the seller's to the buyer's account. This process takes between 5 and 10 minutes when securities are held in the trading sub-account and less than 5 minutes when securities are held in the main sub-account.

For off-exchange trades, it is NDC, which effectively controls the DVP process. Gross settlement of OTC trades takes place between 9.00am and 8.30pm every day.

In case of insufficient securities and cash on at the end of SD (20:40pm) NDC sends to the MICEX SC notification about cancellation of settlement on trade. Payment and security settlement instructions are cancelled at the end of SD.

Off-exchange trades can also settle on an FOP basis with funds moving offshore. NDC requires both buyer and seller to send settlement instructions. The deadline for sending instructions to NDC depends on the type of the instruction (on

average it is 7.00pm). In case of insufficient securities or failing of counter instruction on SD, the instructions are not cancelled at the end of SD. The life cycle of unsettled or unmatched instructions to NDC varies depending on its type.

NDC is working on a DVP settlement arrangement in USD and Euros via accounts with JP Morgan Chase Bank and Deutsche Bank and MICEX Settlement Chamber for authorised banks. However, this service is not currently used due to an aspect of the law whereby a clearing organisation (NDC acts in this respect) is restricted in its cooperation with commercial banks for cash settlement. NDC can only open an account with settlement institutions that are non-banking credit institutions (i.e. MICEX Settlement Chamber). There is a draft law under consideration, which is to amend this restriction.

Cash

Cash settlement for RUB-denominated trades takes place via the MICEX Settlement chamber, a subsidiary of MICEX that holds a restricted banking licence for the settlement of cash accounts of securities related trades. The MICEX Settlement Chamber does not currently provide any type of commercial services.

The MICEX Settlement Chamber currently maintains more than 5128 accounts for 624 participants.

For on-exchange trades, the MICEX Settlement Chamber will start the blocking of cash trading sub-accounts at around 9.45am in the morning of TD. After trading is completed, MICEX will calculate the net settlement obligations of participants and will send the net positions report to the settlement chamber prior to 6.40pm, at which time the MICEX Settlement Chamber will transfer the funds across accounts.

For off-exchange trades, the MICEX Settlement Chamber will receive the settlement instructions from both the buyer and NDC, which controls the DVP process. The MICEX Settlement Chamber will advise NDC upon receipt of sufficient funds in the buyer's account. NDC will then block the securities and instruct the MICEX Settlement Chamber to transfer the relevant amount of funds.

The MICEX Settlement Chamber has a correspondent account at the Central Bank of Russia (CBR), which operates the two payment systems in the market (batch gross settlement systems). However, due to the time difference between the most western region in Russia and the most eastern region (9 hours), these payment systems do not always provide same-day funds. They only provide same-day funds for the regions on the European side of Russia, which account for the large majority of trades.

Asset Commitment Periods

For on-exchange trades, the requirement that securities and funds must be available in specified accounts before trading implies some degree of asset commitment risk. Sellers and buyers suffer similar asset commitment periods since securities and cash are blocked effectively at the time of trading (between 10.00am and 6.00pm) and the countervalue is only received in the evening of SD (usually TD) following the completion of settlement at around 7.10pm. As a result, the asset commitment period varies between 9 hours and 1 hour.

The asset commitment period can be shortened for government bonds and for securities settling in the negotiated market, as pre-funding is not required and it is possible to deliver securities and cash just prior to the clearing process at 6.30pm.

Off-exchange settlements on a DVP basis suffer a shorter asset commitment period since securities are blocked upon confirmation of sufficient cash in the buyer's account by the MICEX Settlement Chamber until the receipt of the countervalue a few minutes later (maximum 10 minutes). Buyers do not suffer any asset commitment period since cash accounts are not blocked under this model. However, the majority of settlement in the OTC mode is on a non-DVP basis, with the potential of a very long asset commitment period depending on the time when securities and cash are transferred.

Irrevocability

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

Finality

Securities and cash transfer become final upon settlement.

Asset Commitment Risk - Key Indicators

Irrevocable commitment to the processing cycle

	Transaction Type	Start	Finish
Securities	On-exchange	10.00am SD	7.10pm SD
	Off-exchange	SD	8.30pm SD
Cash	On-exchange	10.00am SD	7.10pm SD
	Off-exchange	SD	8.30pm SD

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

MICEX trading brokers' accounts are blocked at 8.30am on TD, but participants can request a transfer or 'available' securities of cash intra-day.

Securities processing cycle outlined

For on-exchange trades, debits to securities accounts are made on a net basis during a single batch processing session at the end of the day. Government securities settlement occurs in two intra-day cycles. Off-exchange settlements occur on a gross basis throughout the day on SD.

Cash processing cycle outlined

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

Liquidity Risk

Summary

Liquidity risk for on-exchange classic market settlements is low since both securities and cash are pre-funded and immediately available for settlement on a net basis. Liquidity risk for settlement in off-exchange settlements is on a gross basis and is higher since other liquidity improving mechanisms are generally absent.

Processing Model

For on-exchange settlements the movement of cash and securities occurs on a net basis through separate systems, but is effected almost simultaneously thereby achieving a model 3 DVP environment. Pre-funding of both securities and cash for the classic market, as a condition of trading, makes it effectively a fail-free environment for these trades. The DVP is controlled by MICEX.

For OTC settlements the movements of cash and securities occurs on a gross basis through separate systems, but is effected almost simultaneously thereby achieving a model 1 DVP environment. There is no pre-funding as a condition of trading. The DVP is controlled by NDC. Partial settlements are not possible.

Fails Management

For on-exchange trades (classic market), all trades have to be pre-funded. Because of this, MICEX effectively guarantees settlement of each market trade concluded on MICEX. This is achieved by establishing cash and securities positions for every participant before trading begins. Cash positions are based on the amount of funds reserved by participants in their relevant sub-trading accounts with the MICEX Settlement Chamber. Securities positions are determined according to the amount of securities deposited by the participant with its relevant trading sub-accounts with the NDC. Transactions with sufficient coverage proceed to settlement.

For on-exchange negotiated trades, which do not need to be pre-funded, there are no buy-ins or other fails management mechanisms in place to ensure settlement. However, MICEX may impose a fine of a maximum 0.05% of the trade value to the defaulting participant in case of default. They will also inform the FFMS and the market via their website.

Failed settlements are uncommon and when they occur they can generally be attributed to a change occurring with the issue rather than the availability of securities. If a trade does not settle on the due SD it will be postponed to SD+1. If it again fails to settle then it will be withdrawn and treated as a cancelled trade. Participants also have the option to settle the trade OTC, but both counterparties need to inform MICEX.

For off-exchange trades on a DVP basis, there are no pre-funding requirements or any fails management procedures in place to ensure settlement. If there are insufficient securities or cash in the participant's accounts, the trade will remain pending until the end of the day when the settlement instruction is cancelled.

Credit Facilities

Credit facilities are not provided by NDC but are available to participants from commercial banks and in some cases from the CBR. For credit facilities provided by the CBR, the MICEX Settlement Chamber acts as an intermediary.

Repos from the CBR (in the government securities market) are normally cleared intra-day via four multilateral net batches at 1.30pm, 4.30pm, 5.30pm and 8.30pm if necessary. Banks can therefore obtain funds for settlement during the trading day and are able to withdraw funds at the end of the net cycles.

For credit facilities, the lender (including the CBR) may call for margins or haircuts. In this case, the MICEX Settlement Chamber will be responsible for calculating and managing the margins and haircuts in accordance with the lender's instruction.

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

Securities Lending

Securities lending is not well covered by the securities market legislation although it is practiced for equities in the form of repo transactions. The Securities Market Law allows brokers to credit their clients with cash and/or securities for purchase and sale transactions provided that such credits are collateralised by clients.

NDC does not support this functionality.

Registration Model

NDC is the official depository for GKO, OFZ and CBR bonds and 99% of corporate bonds can be transferred or pledged at NDC by book entry along with over 90% of sub-federal and municipal bonds for which NDC acts as an authorised depository, i.e. provides mandatory centralised safekeeping. These are re-registered at NDC immediately upon settlement.

Equities are registered in a nominee name of NDC with the respective registrars. At the end of 2006, NDC had nominee accounts with more than 50 registrars and has electronic links (EDI) in place with 5 of them, and collectively, those registrars represent almost 80% of NDC's transfer volume. Non-resident holders must maintain accounts in the beneficial owner's name and not via a nominee, therefore foreign custodians have no right to open a nominee account in their name with NDC.

The FFMS is planning to amend the current rules for registrars including strict requirements for data back-up and recovery. They have also expressed their intention to improve the general registration process and increase the minimum capital requirements for registrars. This should have the effect of reducing the number of registrars, as they might need to consolidate in order to create synergies and meet the new requirements.

Deposited securities

All securities in NDC are held in dematerialised form. All GKO, OFZ and CBR bonds are held within NDC as it is the official depository for these instruments. Participants and their client-investors (beneficial owners and trustees) must open segregated accounts and relevant sub accounts for these securities.

The share market of natural gas monopoly Gazprom was liberalised by decree of the government at the end of 2005. NDC opened an account with Gazprom registrar SR DRAGa and depositories: Settlement Depository Centre (SDC) and Gazprombank in order to support the trade of Gazprom shares. Given that trading of Gazprom shares is now concentrated in MICEX, there is no liquidity split among different exchanges. SDC and Gazprombank charge different re-registration fees to block up withdrawal of securities from NDC accounts at those depositories to NDC's nominee account with the registrar.

Deposit and Withdrawal of securities

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

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

Liquidity Risk - Key Indicators

Settlement Models

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

Model 1 - Near simultaneous transfer of gross securities and funds (off-exchange settlements)

Processing Periods

Overnight (by batch)	No
End of day	Yes
Batch daylight processing	Yes
Real-time and on-line	Yes
Other	No

Comments

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Credit Facilities

Central bank money used to settle cash elements of trades	No
Credit facilities provided by the CSD	No
Credit facilities provided by commercial banks	Yes

Comments

-

Stock Lending

Is stock lending permitted in the market	Yes
Are stock lending facilities provided by the CSD?	

No

Are stock lending facilities provided by commercial banks/brokers?

Yes

Comments

-

Transfer of Securities

Are securities deliveries achieved by book-entry?

Yes

Comments

-

Registration of Securities

Period of time required to register a holding?

GKO and OFZ Immediately

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

Comments

Re-registration is immediate when NDC acts as the official depository for the securities and if the re-registration is done on the books of NDC for equities.

Counterparty Risk

Summary

Counterparty risk between participants is reduced by the pre-funding requirements before trading for on-exchange transactions in the classic market and the effective DVP arrangements. However, due to the pre-funding requirement brokers also suffer counterparty risk against the MICEX Settlement Chamber and NDC, which manage the cash and securities accounts, respectively.

For off-exchange settlements, there is full counterparty exposure if the participant chooses to settle on an FOP basis. If settled DVP, there is no risk of principal loss, but some consequential losses may occur since there are no fails management mechanisms. Also there are no minimum capital requirements for participants imposed by NDC and little or no monitoring of participants.

Participant Counterparty Risk

NDC does not act as central counterparty and does not itself guarantee settlement of trades. However, participants are exposed to NDC and the MICEX Settlement Chamber since they manage the securities and cash accounts.

Participants in the off-exchange regime are exposed to the potential for consequential losses due to the cancelling of a trade in the event of insufficient securities and cash since there are no fails management procedures in place such as buy-ins or stock lending. They are also exposed to NDC and the MICEX Settlement Chamber when holding securities and cash accounts.

Risk Containment Model

For on-exchange trades, counterparty risk is mitigated by the pre-funding requirement before trading takes place and the use of an effective DVP mechanism, although it is controlled by MICEX instead of NDC.

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

Delivery Versus Payment

For on-exchange trades, MICEX controls the DVP process by checking that there are sufficient securities and cash in the participants' accounts prior to trading and instructing both NDC and the MICEX Settlement Chamber to debit and credit the relevant accounts. The DVP process takes place on a near-simultaneous basis between 6:40pm and 7:10pm on SD.

NDC controls the DVP process for off-exchange settlements by instructing the cash transfer upon confirmation of sufficiency of funds. It also blocks the participants' securities accounts until confirmation of cash settlement by the MICEX Settlement Chamber. The DVP process is on a near-simultaneous basis.

Role of Central Counterparty (CCP)

There is no central counterparty in Russia. However, the MICEX Exchange Council has decided to set up an individual clearing organisation - the National Clearing Centre (NCC) as a closed joint-stock company with the capital of RUB 235 million. It will be owned by MICEX (98%) and NDC (2%). Essentially MICEX has created separate vehicles for the Settlement House and the Clearing House within the MICEX Group. The Central Bank of Russia (CBR) has granted the banking licence for the National Clearing Centre (NCC). However, the risk management model has not been defined.

In July 2007, the MICEX, the National Clearing Center (NCC), the Central Bank of Russia and leading banks-operators of the currency market in Russia signed an agreement (Trade Agreement) that regulates the order and terms of purchase and sale of foreign currency on MICEX with the use of centralised clearing. As a result, the MICEX Group is completing the transfer of clearing functions from MICEX to NCC, which is going to act as CCP in transactions on the currency market. The Trade Agreement establishes the order and terms of electronic transactions in foreign currency in the Unified Trading Session of Interbank Currency Exchanges (UTS), using the MICEX trading system. Under the Trade Agreement, MICEX guarantees the performance of the NCC's obligations for transactions concluded in the course of trading. In this case the size of the MICEX's liability to participants in trading in the UTS is 2.6 billion rubbles.

The main areas of development of the MICEX Group's clearing business include:

- creating the system of managing risks of default on transactions in securities and preparing the transition to centralised clearing;
- developing the institute of clearing brokers;
- developing clearing operations and technologies in the context of integration of clearing in the currency, derivatives and stock markets as well as in the government securities market.

When the NCC is operational it will perform clearing in exchange (MICEX) and over-the-counter markets, including determining and clearing participants' obligations, offsetting these obligations and organising the execution of obligations for transactions in compliance with the RF law.

Participant Criteria

Eligible participants of NDC include the stock exchanges, the Central Bank of Russia (CBR), commercial banks and brokers/dealers, custodians, insurance companies, and other institutions professionally engaged in securities markets. Foreign participants are not eligible to open nominee accounts in Russia but can open beneficial owner accounts for their proprietary securities, although the large majority open beneficial owner accounts with licensed Russian participants. At the end 2006 there were 1,560 depository accounts open in NDC, for 738 participants.

Neither NDC nor the MICEX Settlement Chamber impose any participation criteria except for the requirement for participants to be licensed by the FFMS to open nominee accounts, or if banks, additionally by the CBR. The minimum capital requirement to be licensed as a bank by the CBR is EUR 5 million (USD 6.3 million) from 1 January 2007. This appears to be quite low.

FFMS issued a new regulation regarding an increase in capital requirements for professional securities market participants, which will come into effect from 1 January 2008 and from 1 January 2009 for certain types of activity. The new capital requirements are as follows:

- for dealers -RUB 5 million
- for brokers -RUB 10 million
- for securities administrators -RUB 10 million
- for clearing activity -RUB 30 million
- for depository activity -RUB 40 million
- for registrars -RUB 60 million from 1 January 2008 and RUB 100 million from 1 January 2009
- for trade organisation on securities market -RUB 60 million
- for stock exchange activity -RUB 100 million from 1 January 2008 and RUB 120 million from 1 January 2009.

Participants in the government debt market must hold the status of dealer from the CBR. If such status is taken away from the participant and the dealer agreement with the CBR is cancelled, NDC is obliged to cancel its depository agreement with that participant and block the participant's GKO/OFZ account.

According to NDC's depository agreement, NDC has the right to suspend or block operations on the account if a participant fails to meet its financial obligations, or on the decision of the regulatory bodies.

The relationship between NDC and its participants is governed by relevant law and regulations, a standard depository agreement (different for types of securities account), established terms and conditions of participation and the depository's rules. All participants are subject to the same rules and procedures.

Participant Concentration

Details of the value and volume of transactions processed through NDC and the average value of securities on deposit for the top 10 direct participants were provided. Based on this information, the concentration of business appears reasonable given the large number of depository participants. In 2006, the top 10 of participants accounted for about 52% of trades by value and 25% by volume. The largest participant accounted for 13.77% by value and 15.48% by volume.

Financial Compliance/Surveillance

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

The FFMS does not appear to execute surveillance regarding the participants' exposure in the market. They also outsource the audit process to PARTAD and NAUFOR (a self-regulatory organization), which executes preliminary audits on behalf of FFMS for the Institutions professionally engaged in securities market including registrars and depositories. The results of the audit are confidential and are sent to the regulator. However, if they are not satisfactory or some concerns are raised, they would publish this on their website. They can only carry out about three audits a year. Following this, the regulator audits market participants. There do not appear to be any other monitoring or surveillance on NDC's participants.

Guarantee Funds

MICEX manages and operates a small guarantee fund which is funded by clearing participants and MICEX in accordance with Decree No 32 issued by FCSM (now FFMS). The guarantee fund consists of cash and Russian government securities. The size of the fund as at the end of 2006 was RUB 31 million (USD 1.18 million).

Counterparty Risk - Key indicators

Capacity of CSD
Agent
Surveillance of participants by CSD
No
Settlement assurance
No

Participation criteria N/A
Minimum Capital (local currency) Banks: EUR 5 million Brokers: EUR 1 million Other: N/A
Size of Guarantee Fund - (Name, local currency, Euro and USD - (millions)) RUB 31 million (USD 1.18 million) as at 31 December 2006.
Does the CSD act as a central counterparty No
Comments There are plans to introduce a CCP named NCC

Participant Concentration (Local Currency Millions)

Value of transactions in the market by top 10% of participants 51.97% by top 10 participants
Volume of transactions by top 10% of participants 24.63% (top 10 participants)
Volume of largest individual participant 13.77% of total by value 15.48% of total by volume (Figures are for the 2006 year)

Asset Servicing Risk

Summary

For asset servicing, the liability is not limited to just gross negligence under local regulations and NDC's insurance covers this liability. NDC is the active recipient of information from issuers and registrars and takes responsibility for its accurate and timely dissemination according to the requirements of Russian civil law to participants once received from the source. It is mandatory for participants to pass instructions via NDC for corporate events of securities held at NDC and in turn NDC is liable for direct losses that arise from its role as an intermediary.

NDC does not act as a tax agent because according to the Russian law issuers are responsible for deducting tax. Currently NDC does not act as representative of the issuer in relation to tax for income payments. NDC collects documentation from participants in order to support their clients' application for tax advantages.

Information processing

For equities, issuers are legally required to notify registrars and registrars are legally obliged to notify the shareholders, including nominee holders (e.g. NDC) of all corporate action information. For all other securities (bonds), issuers are contractually required to notify NDC. NDC collects and provides all corporate action information on an active basis and all data on fixed corporate actions which is contained in offering circulars. There is no centralised official source of information in the market for equities, however there are a number of sources that NDC deems to be official. For some types of securities (bonds with centralised safekeeping) NDC is the main source of information in the market, although it would appear that most participants prefer to double check the information sent by NDC with the issuer or other sources before passing it onto their own clients. For shares and bonds, issuers are required to inform two data vendors regarding important information, Interfax and AK&M, which then make it publicly available for free. This information is also published in the appendix of the FFMS magazine.

NDC notifies participants about corporate actions relevant to them on the day of receipt (DOR) or on DOR+1 at the latest. NDC will inform a participant if they acquire the securities after the announcement date but it will not issue confirmations of final entitlements for each corporate event. NDC maintains a calendar of upcoming events in their system and will send a reminder to participants even if no information is sent by the issuer (e.g. for bonds they enter the coupons and redemptions date in the system and a reminder is sent).

The majority of corporate actions information is received via fax with only a small proportion (3%) currently received via EDI. However, registrars are also required to send the information in physical form. Once the information is received, it is manually input by the corporate actions staff and then re-entered by the operations department to double check before it is sent out to participants. NDC will post all corporate actions information on their website and it is automatically sent out via EDI.

NDC accepts responsibility for losses resulting from missed, inaccurate or incomplete corporate actions information delivered to participants in accordance with Russian civil law provided it has been received from the issuer or the registrar. NDC's insurance covers this liability.

Instruction processing

NDC acts as central paying agent for CBR bonds, most municipal and subfederal bonds except Moscow bonds and most corporate bonds with centralised safekeeping at NDC. The central paying agent for government bonds is CBR. For equities, NDC does not act as central paying agent, but as a nominee account holder, will distribute income received from the issuer or its paying agent to the relevant participants' accounts. As of December 2006, they had agreements with 430 issuers, including 82 paying agent agreements.

It is mandatory for all corporate instructions to be routed through NDC; and NDC accepts full responsibility for any losses that arise as a result of any corporate action deadlines that are missed, where the participant has notified NDC within the agreed deadline. Some corporate actions that do not require mandatory instructions are processed on the basis of the issuer decision, statement from the system of register maintenance of security holders and other official documents, received by NDC from the issuer, registrar or paying agent. NDC monitors positions for pending instructions, it will automatically alert participants if their instructions are missing, incorrect or incomplete, and check that instructions are in respect of eligible positions. Participants cannot amend their instructions, but they can cancel the original instruction and input a new instruction if the processing of the event has not finished.

The large majority of instructions are received via EDI and do not require manual input. SWIFT can also be used for corporate actions instructions, but it is not common. Instructions can also be received by physical means, although uncommon, in which there is mandatory duplication of the same information on any magnetic media, to make sure no incorrect information is processed. Entitlements are calculated on Record Date (RD) based on settled positions. RD for bonds is usually Pay Date (PD) minus 6 or 7 days according to the issuer's prospectus. After RD for bonds, participants have 2 days to amend their bank details. Paying agents will receive the income for corporate actions for bonds, usually one or two days prior to PD. If NDC acts as a paying agent corporate actions income is credited to NDC's account at the MICEX Settlement Chamber. This is a special account held for corporate actions purposes only. Once the income is received, NDC as a paying agent will then credit the participants' accounts or accounts of their clients disclosed on RD on PD via bank transfer to the participants' account. For the other securities income received on NDC account are transferred in accordance

with participants' additional instructions or questionnaires filled in on the account opening.

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

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

During 2006, NDC handled dividend, coupon and principal payments to the value of RUB 38.89 billion (USD 1.48 billion), of which RUB 34.79 billion (USD 1.32 billion) was via NDC as paying agent for bonds.

Proxy Voting

NDC offers a proxy voting service, although it is not currently used by any participant. Most investors appear to appoint their custodian to represent them at general meetings, if required.

For proxy voting services, NDC supports all announcements of meetings received by NDC from the issuer/registrars (which it could attend through its representative on the request of participants and given it has a Power of Attorney), furthermore it will request additional information or documents from the issuer or authorised party on participant's request. NDC, on the basis of the Power of Attorney, is also able to process contingent voting instructions and will confirm that votes have been cast in accordance with participants' instructions. NDC does not have any follow up procedures for voting instructions that are not received due to participant's preference to use their custodian for proxy voting, which have follow up procedures. Positions do not have to be re-registered to qualify for voting and positions are not frozen around voting dates.

Other services

NDC does not provide any tax services. According to the Russian legislation, the issuer acts as tax agent for securities income. The issuer is responsible for calculating the relevant tax for investors and the paying agent receives the net amount. In order to determine the net amount NDC keeps a copy of documents for tax calculation purposes sent by participants and forwarded to the issuer/registrars. It is the participants' responsibility to provide the documentation for tax calculation purposes. NDC will pass these documents to the issuer, which makes the decision whether the information is sufficient to provide a benefit from the reduced rate.

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

Asset Servicing Risk - Key indicators

Information processing

Securities covered
All domestic and foreign eligible securities
Information sources used
Issuer, Registrar, Federal Financial Markets Service, MOF, Central Bank, MICEX, Data Vendors.
Information provided in English
Yes

Number of Events during last full year

Dividends
171
Interest & Redemptions
221
Corporate actions
258
Notification via
SWIFT message, proprietary electronic, internet/e-mail and mail.
SWIFT message types
Yes
Notification within
Same day
Information processing comments
-

Instruction processing

Use of depository Mandatory for some fixed income securities
Settlement on due date Yes
Optional corporate actions supported Yes
Cash account credited Yes
Central paying agent Yes
Entitlements based on Settled Positions as of Record Date
Instruction processing comments Central paying agent for certain municipal, subfederal and corporate bonds with mandatory centralized safekeeping at NDC

Proxy voting services

On-line Planned
Outsourced No
Announcement of meetings Yes
Elections (Voting) Yes
Results reporting Yes
Proxy voting services comments Proxy voting services are offered but not currently used.

Financial Risk

Summary

NDC's net capital at RUB 916 million (USD 35 million) in 2006 seems adequate for the market and is expected to be increased to the average of the European CSDs (RUB 1,500 million or USD 55 million) by 2010. Future revenues are largely assured since about half of income is from safekeeping fees of fixed income securities for which NDC is the sole depository. They are currently making significant investments in infrastructure as they are in the midst of a major project to re-engineer their systems which is currently scheduled to run until the end of 2008.

Financial and other Resources

Capital Structure

NDC is a partnership between the Central Bank of Russia (CBR) and the Moscow Interbank Currency Exchange (MICEX) both of which are government controlled. Several major commercial banks also have a minority stake in the partnership totalling 13.98%. Given the partnership structure, it is not known to what extent NDC would be able to draw additional funds if required, especially since the CBR does not provide any explicit guarantee to NDC. In addition, according to the Russian Prosecutor General's office, CBR has been requested to exit from NDC's capital structure following a review conducted in autumn 2006. The CBR is yet to make a decision in this respect.

NDC now publishes financial statements both in Russian (as required by law) as well as according to international standards.

Under International standards, NDC reported a net capital of RUB 916.22 million (USD 34.79 million) as of 31 December, 2006, a 58% increase compared to the capital reported in 2005 (RUB 578 million). Since NDC is a not-for-profit partnership, its capital comes from 973.4 million (USD 37 million), which resulted from initial capital (constituted by entrance fee) and direct financing.

NDC has a stake in other depositories such as Depository and Clearing Company (DCC) and the Settlement Depository Company (SDC) due the contribution of new partners (commercial banks) via transferring their holding in the depositories. However, this is not included as an increase in capital, but rather as a current liability since they are required to pay back the contribution to their partners if they withdraw from the partnership.

NDC's capital seems adequate for the market and it considerably surpasses the minimum capital requirements established for clearing and settlement organisations established by the FFMS (RUB 45 million). Furthermore, the Board of Directors approved in 2005 a capital increase to RUB 1.5 billion (USD 55 million) by 2010 in order to bring it in line with the average capitalisation of CSDs in Europe.

Earnings Performance

NDC is a not-for-profit partnership and as such does not distribute profits to its members. Excess funds are used to increase the capital while fee reductions moderate the growth in revenue.

Despite being a not-for-profit organisation, NDC has reported significant profits over the last five years. Profit after tax increased in 2006 (by around 47% compared to 2005) to RUB 338 million (USD 12 million). NDC generates revenue both as a de facto depository, primarily for government debt, but also as a domestic and international custodian. Volumes have been increasing, more than offsetting fee reductions.

NDC's fees structure is as follows:

- Corporate bonds: 46.7 %
- Government Bonds: 22.2 %
- Equities: 29.5 %
- Eurobonds: 1%

90% of income in corporate and government securities is derived from safekeeping services and only 10% from settlement activities. Revenues in the equity market come equally from safekeeping and settlement services (55% - settlement, 45% - safekeeping). Overall, 63% of NDC's income in 2006 was derived from safekeeping and only 17% related to transfer activity and 12% from services to issuers.

Since about half of NDC's revenues are derived from safekeeping services of fixed income securities, the potential for revenue instability is not a concern. The issuer is required to include the name of the depository where the securities will be held in their prospectus and the securities cannot be withdrawn. In addition, NDC is the only depository for government securities.

Guarantee Funds (Central Counterparty Funds Only)

Not applicable

Access to Credit

NDC is able to borrow funds. However, currently it does not have any borrowings in place.

Insurance

In 2006 NDC purchased regular comprehensive crime and professional liability policy from Ingosstakh Insurance Co. The coverage period is from 1 September 2006 to 31 August 2007 and the limit of indemnity was set at USD 25 million per single claim as well as for all claims made during the term of the policy.

The policy is reinsured mainly with Lloyd's syndicate as well as large German reinsurers. This is one more step to implement NDC development strategy on the way to establish Central Depository on Russian securities market.

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

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

The insurance covers all insured events that occurred within the term of the Policy. Insurance covers losses found for the first time incurred as a result of events that occurred after 1 September 2002.

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

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

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

Potential Claims on Financial Resources

Credit Loss

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

Central Counterparty Exposure

NDC does not have any exposure as central counterparty.

Liability for Operational Losses

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

Investment in Infrastructure

NDC has invested in stakes in other settlement depositories (DCC and SDC), which have come from both, contributions from new partners as well as their own resources. They have stated some interest in continuing to acquire stakes in settlement depositories, which might absorb surplus funds of NDC.

NDC is also working on the development and implementation a new technology platform to support its operation as a central securities depository and is working with Tata Consultancy Services for this purpose. The final phase of the system is currently scheduled for completion in late 2008. NDC have stated that the development costs are being absorbed within their operating budget.

NDC is planning some investment in office facilities in 2007.

Financial Risk - Key indicators					
Ownership of the CSD					
	Number - Domestic	Number - Foreign	Total Percentage		
Central Bank	1	0	39.35%		
Stock Exchange	1	0	46.67%		
Participant banks	12	0	13.98%		
Broker/dealers	0	0	0		
Mutual funds	0	0	0		
Private clients	0	0	0		
Others	0	0	0		
-	-	-	-		
-	-	-	-		
-	-	-	-		
Comments					
Voting Rights:					
-MICEX: 50.16%					
-CBR: 42.3%					
-Participating banks: 7.54%					
Partner banks include:					
-J.P.Morgan Bank International					
-Vneshtorgbank					
-Bank Evrofinance Mosnarbank					
-Bank of Moscow					
-International Moscow Bank					
-Sberbank of Russia					
-Rossiyskiy Kredit Bank					
-Commercial Bank ROSBANK					
-ING Bank (Eurasia)					
-Deutsche Bank					
-Gazprombank					
-Bank for Development and Foreign Economic Affairs (Vnesheconombank)					
Statistics					
	Capital structure Local Currency				
Issued capital	-				
Surplus	-				
Reserves	-				
Retained earnings	916,225				
Total	916,225				
Comments					
Statistics (in RUB thousands) as of 31 December 2006 - calculated on international standards					
Lines of stock					
	2002	2003	2004	2005	2006

Lines of stock	1,339	1,110	1,047	1,418	1,736
% Stock Exchange transactions cleared and settled through CSD	100	100	100	100	100
Total value of securities under custody	902 (RUB billion)	982 (RUB billion)	1,319 (RUB billion)	1,770 (RUB billion)	3,288 (RUB billion)

Comments

The increase in value of securities under custody is attributable mainly to the rise of shares of joint-stock companies and corporate bonds.

Figures as at 31 December.

Equities

	2002	2003	2004	2005	2006
Market Value	134.2	119	153	256	1,136
% of issued securities in the CSD	N/A	N/A	N/A	N/A	N/A
% of market capitalisation in the CSD	N/A	N/A	N/A	N/A	N/A

Comments

RUB billion

All figures as at 31 December

Fixed Income

	2002	2003	2004	2005	2006
Market Value	76.3	247.4	418	722.2	2,147
% of issued securities in the CSD	99%	99%	99%	99%	99%
% of market capitalisation in the CSD	99%	99%	99%	99%	99%

Comments

Corporate bonds, RUB billion (value at par)

Money Markets

	2002	2003	2004	2005	2006
Market Value	N/A	N/A	766.8	884.6	N/A
% of issued securities in the CSD	100%	100%	100%	100%	N/A
% of market capitalisation in the CSD	100%	100%	100%	100%	N/A

Comments

Government debt, RUB billion

Expenses

	2002	2003	2004	2005	2006
Expenses as % total operating revenue	68.8%	56%	55%	56%	53%

Comments

-

Operational Risk

Summary

NDC has reported that it has internal control procedures in place to mitigate operational risk. Financial reviews and audits are carried out at regular intervals by internal and external auditors. Operational audits are undertaken by the Internal Controller and NDC has recently engaged external auditors to undertake a point in time audit on operational controls. Additional audits are arranged periodically (approximately every two years) by Ingosstrakh Insurance as part of their insurance process with the last being done in 2004. NDC shares a DRP facility with MICEX and conducts DRP tests twice annually, the most recent being in February 2007.

Depository controls

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

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

Each participant receives information and status of their account, including safekeeping reports, by either electronic link or by physical account statements. Electronic links are controlled by passwords, which must be changed regularly. Each user has a unique identifier and a lock-out facility is triggered after three unsuccessful user ID attempts. Unauthorised access attempts are logged and investigated.

For equities and corporate bonds, participants usually hold securities in different types of accounts: beneficial owner, nominee holder and trustee, although beneficial owner accounts are the most common. Government securities are required to be held in segregated beneficial owner's accounts under local regulations.

NDC is in the pilot phase of a functionality implementation which provides on-line access to view the ledger system. On-exchange participants are able to see their positions on-line via the MICEX system. All participants will ultimately be able to see their securities positions through this new interface. They are also able to see their trade status (i.e. matched, pending, etc) through the NDC EDI system (LOUCH). Also, participants receive a confirmation report immediately after settlement and the participants are able to receive the accounts balances on a regular basis by sending special instruction indicating the type of the report and frequency.

Adequate records are maintained by NDC in order to facilitate the segregation of the depository's assets/liabilities from those that are held on behalf of participants. Under Russian Law participants are required to segregate assets held for their own benefit from those that they hold on behalf of their clients and from those that they hold as a trustee. This is accomplished by the use of multiple accounts and sub-accounts. Daily reconciliations are performed of all assets held.

NDC has recently engaged Deloitte & Touche to undertake an external audit of its operational controls. Although the audit report shows that controls are in place and properly executed in all areas, it also highlighted some insignificant areas for improvement related to registration of securities, transaction processing, logical security and execution of transactions with some recommendations to NDC. Deloitte also undertake annual financial audits.

Clearing controls

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

NDC became a SWIFT member during 2001 and is ISO 15022 compliant, although SWIFT is not used to a significant extent.

NDC is recognised by the Association of National Numbering Agencies (ANNA) as the national numbering agency for Russia and CIS countries. ANNA decided that NDC's structure and activities, its personnel, information resources and technical means and facilities meet all the requirements established for National Numbering Agencies, such that NDC can allocate International Securities Identification Numbers (ISINs) to securities, registered for circulation in the Russian Federation and CIS countries

Data processing controls

NDC's software - the Central Depository System (CDS) runs on MICEX hardware and communications which also link to the CBR, which is thereby able to offer a back up facility.

CBR and participants have access to the NDC proprietary system. Access control policies have been established and any changes to system software must be authorised and tested.

The depository operations run on the Central Depository System (CDS), a software and hardware configuration designed by CMA Small Systems AB. CDS is the data processing core for performing the depository function on the securities market and for automation of the services that are provided to NDC participants.

The operational environment meets high performance requirements and has sufficient scaling capacity utilising Hewlett-Packard HP-UX software and a relational database management system developed by Informix. The telecommunication system hardware is built on the network equipment manufactured by such leading companies as Cisco, Lightstream, and Hewlett-Packard.

Communication with participants is predominately via EDI 'LOUCH' (Electronic Document Interchange), with SWIFT ISO 15022 as an alternative channel. EDI messages are sent by e-mail. Since the beginning of 2004 almost 99% of instructions and outgoing reports were via EDI. The few instructions that are still received in paper form are doubled-input and matched to ensure accuracy.

Data and electronic documents that utilise the EDI system are encrypted. NDC has the necessary licenses to work with electronic documents with cryptographic protection.

Disaster Recovery/Business Continuity Procedures

Disaster recovery procedures have been developed in accordance with NDC depository procedures. NDC has a comprehensive DRP procedure, which identifies the key processes that need to be followed in the event of an emergency such as evacuation of personnel, extending NDC's back up office and informing employees, transfer of main system to back up office, medical and psychological assistance to the staff, preparation of back up office in the event that the main office becomes inaccessible.

A stand-by computer centre has been set up to ensure the smooth functioning of the depository system should the main system fail. This system, like the main system, is operated by the MICEX Stock Exchange.

The hardware and software complexes are capable of performing the multiple redundancy and back-up function for the main computer systems and telecommunication facilities and are equipped with uninterrupted power supply, fire-fighting and air conditioning devices. This architecture enables significantly increased fault-tolerance of both complexes, thus ensuring the smooth functioning of the entire system.

In order to increase reliability of computer systems, there is duplication of all components. For computer system functioning, three identical servers are used - HP 9000 rp8420 - two at the main site plus an identical one at the back-up centre, which is located around 4 kms away. ServiceGuard package is used. For data storage two RAIDs are used - XP256 for the main system and XP128 for reserve system. RAIDs are connected by optical channel. Data is mirrored and there is at least double redundancy for all telecommunication equipment.

NDC have also stated their intention to operate an additional computer centre, away from central Moscow.

Back-up copies of the database and archives are made using magnetic-optical libraries in real-time. Securities information is backed up and stored with the Technical Center of MICEX.

The DRP plan is tested at least twice annually and is available for review by participants although generally participants have not taken part in the testing. The most recent test occurred in February 2007 with a further test scheduled

Depository Liability

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

Systems Performance

The computer system is to be accessible permanently except when there are scheduled breaks for technical support and software upgrades etc.

Computer system uptime – 99.9%

Operational Risk - Key indicators
Control objectives identified by the CSD match standard objectives Yes
Key controls and procedures are identified by the CSD Yes
Independent evidence exists that key controls and procedures have operated effectively through the last year Planned

Material errors have been identified

Planned

Comments

-

CSD on CSD (Credit) Risk

Summary

NDC has an account with Clearstream and has been authorised to open an account with Euroclear bank, although not yet established.

A bridge set up between NDC and the Depository Clearing Company (DCC) in 1999 allows settlement through both depositories (similar to the Euroclear Bank and Clearstream Banking bridge). DCC is the depository and settlement system for transactions in equities traded on the Russian Trading System (RTS).

Since NDC settles securities transactions for DCC against a net credit limit, it takes counterparty credit risk against DCC until final funds settlement at NDC.

NDC opened a nominee account with the Central Securities Depository of Kazakhstan, which allows NDC to provide its clients with depository services for safekeeping of Kazakhstan issuer's securities.

CSD - CSD Links

Direct settlement between participants of the two depositories occurs with no need to re-register securities immediately at the issuer's registrar. Only a limited number of the most liquid equities can be transferred through the bridge (As of July 2007 there were more than 90 securities eligible for bridge settlement). The daily valuation limit of the securities that can be transferred via the NDC-DCC Bridge is USD 50 million. Re-registration is necessary for the amount exceeding the limit. NDC and DCC regularly effect mutual settlements with registrars by executing net transfers between their nominee accounts. Periodicity depends on the issue and the net sums calculated.

Processing Cycles

An additional morning settlement session allows for efficient processing across the bridge. In 2006 there were 16,324 transactions across the bridge of value RUB 467 billion (a 51% increase compared to 2005). In April 2007 there were approx. 53 issuer of securities eligible for bridge transactions.

CSD on CSD (Credit Risk) - Key indicators

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

NDC has a one-way link with Clearstream Banking S.A. and the Central Securities Depository of Kazakhstan.

Domestic links - Depository Clearing Company (DCC).

European Central Bank logo



ECB Monetary Operations

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Governance and Regulation

Management and governance of the depository

NDC is a not-for-profit partnership governed by the General Meeting of NDC partners, Board of Directors and the General Director. The Board comprises representatives from the MICEX and participant banks. The current Board of Directors has eleven members representing Vnesheconombank, MICEX, Sberbank of Russia, Vneshtorgbank, JP Morgan Bank International, International Moscow Bank, DeutscheBank and Gazprombank and the Russian Association of Independent Directors.

There is also a General Meeting of NDC partners which governs the Board of Directors.

NDC also has four different committees, which are comprised of some NDC staff as well as market participants to determine and plan future developments, as follows:

-Depository Committee: To promote broad participation of Depository Participants and Partnership members in discussion of depository related issues.

-Risk Management Committee: Defines and approves risk management policies and procedures.

-Budget Committee: Reviews financial performance, fees and NDC's draft budget.

-Technical Committee: Identifies the priorities and key areas of IT development undertaken by NDC, and to coordinate the joint efforts between NDC and the infrastructure organisations operating in the Russian and international financial markets.

Regulatory and independent examination of the depository

NDC is regulated by the Federal Financial Markets Service (FFMS) of the Russian Federation. No enforcement actions have been taken by a regulator on NDC in the past four years.

NDC reports to FFMS and is a member of the self-regulatory organisation PARTAD (Professional Association for Registrars, Transfer-Agents and Depositories), NSMA (National Securities Market Association), NAUFOR (National Association of Securities Market Participants). NDC follows the rules of PARTAD. NDC is required to submit monthly reporting documents and copies of quarterly financial statements to FFMS.

Financial audits are carried out by the internal audit department when necessary. Financial audits are carried out by Deloitte Touche. Deloitte have also been appointed the external operational auditors for a three year term. FSFM and PARTAD audits may be undertaken upon the request of a third party. PARTAD executed a full operational audit on NDC five years ago, in 2002. An audit of NDC was arranged for insurance purposes in 2004.

The internal control department conducts operational audits on a regular basis.

Internal controls and procedures for safeguarding investments

Key internal controls and procedures are contained in the NDC Internal Control System. The system ensures that assets held for others are safeguarded against unauthorised use, loss or disposition and that securities transactions are processed in accordance with participant's instructions and payment of net settlement obligations are made on a timely basis. Each department has their own internal procedures and they are made available to their staff once they join NDC. The staff are required to comply with these procedures. Other objectives of the system include:

To ensure that the rules and procedures of NDC's operations and documentation meet the requirements of the effective legislation and regulations.

To increase efficiency and reliability of NDC operations and functions.

To place control over staff activities as to compliance with legislation requirements, regulations, internal procedures and professional ethics.

Other legal protection mechanisms

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About the Depository	Segregation of Assets at the Depository
Name and Address National Depository Center (NDC) Sredni Kislovski puriulok, 1/13 Moscow 103009 Russia	Depository assets from participants Yes
Website www.ndc.ru	Participant assets from clients Yes
Date of establishment	Eligible Securities Depository under SEC Rule 17f-7
	System of central handling of securities

Internal Safety Measures

Services Provided

Participant Eligibility Criteria	Matching
Minimum Capital Standards No	Pre-matching services No
Comments Established for banks by the CBR and for brokers by the FFMS	Matching services Yes
Financial Aspects	Comments For OTC trades only
Ability to raise capital/borrow Yes	Clearing
Committed lines of credit in place No	Clearing services Yes
Publish audit financials Yes	Comments -
Take lien on stock held Yes	Securities Settlement
Central Bank Guarantee No	Book-entry settlement Yes
Other third party guarantee No	Fails management No
Third party insurance Yes	Comments None for OTC
Comments -	Cash Settlement
Safeguard Facilities	Internal cash settlement No
Offsite Backup Yes	Comments -
Comments At DRP facility	Stock Lending
Disaster Recovery	Securities lending for fails coverage No
Disaster Recovery Plan Yes	Comments -
Back-up power generator Yes	Asset Servicing
UPS (Uninterruptible power supply) Yes	Notifications Yes
Comments DRP shared with MICEX	Securities processing Yes
	Paying agent Yes
	Central registrar Yes
	Proxy voting services Yes
	Comments Paying agent and registrar for certain bonds only
	Communications
	Electronic communications Yes
	Comments -
	Reporting Services
	Electronic reporting Yes
	Reporting of every movement

Yes
Regular statement of securities deposited
Yes
Comments
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