



The National Depository Center

Thomas Murray CSD Public Rating for : The National Depository Center is AA-

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

The outlook for the rating is: Stable

Overall Risk Summary

Thomas Murray has affirmed the National Depository Center's (NDC) rating at AA- which means very 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 particularly in the areas of counterparty, financial and operational risk.

The Counterparty Risk rating has been improved from A to A+. This recognises the changes to participant criteria that are being introduced which presume that MICEX/NDC clients are professional market participants licensed through the Federal Financial Markets Service [FFMS]. Effective January 2008, FFMS began a programme to impose higher capital requirements on all licensed bodies. These bodies are required to report financial and trading information to both FFMS and MICEX. Counterparty risk is also controlled by the use of a DVP settlement model. Although participants are exposed to the MICEX Settlement House, its activities are limited to cash settlement and its funds are held with the CBR.

The Financial Risk rating has improved from AA- to AA following an increase in insurance coverage to USD 50 million, (previously USD 25 million) in August 2007, and an increase in capital to RUB 1.35 billion (approx USD 55 million, previously USD 35 million), as at the end of 2007. Profits have continued to be generated despite the reduction in safekeeping fees by 15%. Also, the cost of the development of the new settlement system 'Eclearsettle', within a three year project, has been largely absorbed over the last two years.

NDC has maintained the momentum of continuous improvement in operational areas to mitigate operational risk over the last year, and as a result, Operational Risk has been upgraded to 'AA'. The main measures taken that led to the rating upgrade in Operational Risk are:

- The quality and use of procedures has been enhanced across operations. Staff understanding of the procedures is part of internal audit control. The Electronic Document Interchange system [EDI] supports efficient electronic securities reconciliation between NDC and the registries, and between participants and NDC.
- Two new quality control roles have been established within the operations department to oversee and check that operational processes are correctly completed on time.
- The external operational audit carried out by Deloitte in 2008 found no significant deficiencies in respect of the internal control objectives.

- There have been improvements to the BCP plan with some staff now working permanently from a second site. The DRP arrangements are more robust, have been tested, and incorporate a remote backup site.

NDC runs a single end of day batch for on-exchange settlement that 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. Liquidity risk is reduced for these 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. MICEX introduced an optional gross settlement model for participants, which supports settlement on a gross basis immediately after the trade has been executed. Although the shorter process reduces the asset commitment period, the trade for trade settlement will imply higher liquidity demands.

NDC acts as paying agent for CBR bonds, most municipal bonds and most corporate bonds. For equities:

- NDC maintains a repository of participants details and standard payment instructions (for dividend payments) which is updated electronically by participants through EDI.
- Registries send AGM and Proxy Vote related information direct to NDC participants (shareholders) on the basis of the shareholder's list provided by NDC.
- There is no central repository of other corporate action information and NDC receives this information from the registries as nominee holder either electronically through EDI or manually.
- NDC provides the necessary participant details to registries to conduct corporate actions, and distributes the dividends it receives to participants.

As a nominee holder, NDC accepts liability in accordance with the Russian Civil law. The potential for risk remains in this area but is mitigated by the use of strong processes and procedures and the use of EDI for electronic processing of some processes.

Outlook Summary

The outlook for the National Depository Center (NDC) rating is 'Stable'. NDC plans to increase its capital to RUB 1.5 billion by 2009 which will further improve the entity's financial position.

NDC has been successful in recent years in transferring almost 90% of its activity with registrars through an Electronic Document Interchange system (EDI), which has substantially reduced the time required for transfers while reducing the costs and risks inherent in completing physical transfers. EDI provides a sound infrastructure upon which NDC is able to:

- Source and forward corporate action information and instructions indirectly between registrars and participants in electronic form.
- Further develop and introduce standard message formats to support STP. 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.

Stage 1 of the new eclearsettle system has been completed and specific target dates for the completion of stage 2 and stage 3 have been specified (March 2009 and December 2009). Tight management of the project is needed to avoid delays in implementation of the new system which could lead to delays in reaping the cost efficiency and participant benefits.

Offsetting these positive developments is the lack of progress to introduce the new CSD law. As a result, the existing infrastructure is more likely to become entrenched and create uncertainty for Depository infrastructure planning, development and growth in foreign investor business. 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. There are plans to mitigate this by introducing a DVP T+2 settlement model without pre-funding.

Role of the Depository

The National Depository Center (NDC) is a not-for-profit partnership. NDC began operations in March 1998. Later in 1998, the NDC partnership was joined by several major domestic commercial banks. In December 2007, The NDC Board has approved the reorganisation of NDC from a not-for-profit enterprise into a joint-stock company to comply with the requirements of the Central Securities Depository law. This will be undertaken in the next eight months, after which, the central bank will give up its shareholding stake in NDC.

NDC performs the functions of a central securities depository for government bonds denominated in roubles (GKO 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 and within the region.

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

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.

<i>Risk Summary</i>	Risk
Overall Risk	AA-
<p>Asset Commitment Risk 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 gross 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 the on-exchange negotiated market and off-exchange trades is higher due to the absence of pre-funding and the absence of other liquidity improving mechanisms such as securities lending and borrowing and buy-in procedures - although repos and reverse repo transactions are available to obtain and cash and securities.</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 House 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. Counterparty risk is somewhat mitigated by minimum capital requirements for participants imposed by FFMS and monitoring of participants by both FFMS and MICEX.</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. The EDI on line system is used to efficiently distribute information to participants, and to provide an electronic platform for participants to instruct NDC.</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 had net capital at RUB 1.35 billion (USD 56 million) in 2007. NDC seems to be comparatively well capitalised in respect of the securities under custody. 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's external auditors to undertake a point in time audit on operational controls. An additional audit was arranged by</p>	AA-

<p>Ingosstrakh Insurance as part of their insurance process in 2004. NDC maintains a near hot DRP capacity at a new DRP facility that it shares with MICEX. NDC conducts DRP tests twice annually, the most recent being in April 2008.</p>	
<p>CSD on CSD Credit Risk NDC has a one-way link with Clearstream Banking S.A., Euroclear Bank, the Central Securities Depository of Kazakhstan and CJSC National Depository Centre of Azerbaijan (NDC). It also has a settlement link with DCC, its fellow Russian depository.</p>	Links Exist

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 and gross on-exchange transactions 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 House (MICEX SH). 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 which are neither pre-funded nor are securities frozen prior to settlement. (An optional gross settlement facility for on-exchange negotiated transactions and Repo for value greater than RUB 10 million was introduced in March 2008 - as at May 2008 the take up was low).

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

Other trades may settle outside MICEX on a Free of Payment basis [FOP].

(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. MICEX has also introduced a trading session between 6.00pm and 8.40pm for repos with the CBR.

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 5.30pm. Settlement occurs on the same day (i.e., SD = TD) at 1.00pm, 4.00pm and 5.30pm. Trading continues during the settlement periods. An additional trading session is held daily from 6.00pm to 8.10 pm for REPO trades against the Bank of Russia. Clearing and settlement for these transactions, takes place after 8.10pm on the same day (if necessary):

Trades are locked-in and the information is sent electronically to NDC and the MICEX SH 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 SH 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. Transfer of additional funds to the cash account with the MICEX Settlement Chamber, and additional securities to the securities account with NDC, can be made during MICEX trading sessions if participants expect to increase their settlement obligations.

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.

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 SH for the cash positions. Transfer of securities and cash occurs near-simultaneously prior to 7.00pm and both NDC and the MICEX SH 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:

Net settlements:

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 (after 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.

From March 2008, gross settlements is also an optional settlement modality for trades greater than RUB 10 million executed in the negotiated market (refer above 'Processing Cycles - Model 1').

-Repo market:

Net settlements

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. The first leg requires pre-funding while no pre-funding is required for the second leg. 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.

From March 2008, gross settlement is an option for Repo trade settlement (refer above 'Processing Cycles – Model 1').

- state federal bonds and money market instruments:

Trading of government bonds and money markets instruments takes place via MICEX between 11.00am and 5.30pm. They can have a settlement cycle between T+0 and T+2. 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 SH 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 SH. In NDC settlements for off-exchange trades with state federal bonds (GKO/OFZ) are prohibited without special authorization of CBR.

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 SH. NDC will then match both instructions on the same day the trade is input. The deadline for sending settlement instructions to the MICEX SH is 8.30pm and to NDC by 8.00pm.

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 SH. 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 SH 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 is 5.00pm unless the instruction is electronic message in which case the deadline 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 via accounts with JP Morgan Chase Bank.

Cash

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

The MICEX SH currently maintains more than 5128 accounts for 676 participants.

For on-exchange trades, the MICEX SH 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 SH will transfer the funds across accounts.

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

The MICEX SH 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 is shorter for securities settling in the negotiated market, (government bonds), 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 have a short asset commitment period since securities are blocked between the time a payment request is sent to the MICEX SH to transfer funds from the buyer's to the seller's account, and MICEX SH confirming the transfer is complete, a few minutes later (maximum 10 minutes). Buyers do not suffer any asset commitment period since cash accounts are not blocked under this model. However, the majority of settlement in the OTC model is on a 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 authority decisions.

Finality

Securities and cash transfer become final upon settlement.

Asset Commitment Risk - Key Indicators

Irrevocable commitment to the processing cycle

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	<i>Transaction Type</i>	<i>Start</i>	<i>Finish</i>
<i>Securities</i>	On-exchange	10.00am SD	7.10pm SD
	Off-exchange	SD	8.30pm SD
<i>Cash</i>	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 of 'available' securities or 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. (Negotiated market trades and repo can also use this gross settlement option for trade values in excess of 10 million Rouble).

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: (i) on-exchange classic market settlements is low since both securities and cash are pre-funded and immediately available for settlement on a net basis; (ii) the negotiated market is higher as no pre-funding is required and settlement can fail; and (iii) off-exchange settlements completed on a gross basis is high 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.

The negotiated market is not pre-funded and trade fails may occur in the absence of any fails management by NDC/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 SH. 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 delay in the transfer of the underlying security rather than the availability of securities. If a trade does not settle on the due SD it will be postponed to SD+1. If it again fails to settle then it will be withdrawn and treated as a cancelled trade. 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 SH acts as an intermediary.

Repos from the CBR (in the government securities market) are normally cleared intra-day via four multilateral net batches at 1.00pm, 4.00pm, 5.30pm and 8.10pm 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 reverse repo transactions. The Securities Market Law allows brokers to credit their clients with cash and/or securities for purchase and sale transactions provided that such credits are collateralised by clients.

NDC supports the settlement of repo transactions on MICEX.

Registration Model

NDC is the official depository for state federal bonds 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.

As at May 2008, NDC had EDI links established with 11 registrars (2 in test mode), reducing re-registration time to just one business day. These registrars represent around 85 - 90% of NDC's transfer volume. There is only one remaining registrar with a significant volume (~1.5% of transfers) that does not have an EDI link with NDC. 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 Federal Bonds 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, negotiated market trades, and repos)

Processing Periods

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

Credit Facilities

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

Comments

- MICEX Settlement House holds a settlement account with CBR and clears settlement with the clearing banks in CBR funds.

Stock Lending

Is stock lending permitted in the market

Yes

Are stock lending facilities provided by the CSD?

No

Are stock lending facilities provided by commercial banks/brokers?

Yes

Transfer of Securities

Are securities deliveries achieved by book-entry?

Yes

Registration of Securities

Period of time required to register a holding?

GKO and OFZ bonds - Immediately

Various periods for equities. According to legislation, re-registration should be within 3 days, rejections within 5 days. Market experience shows it takes up to 10 days depending on the location of the registrar. For issues whose registrar is on 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. External re-registration can take up to three days.

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. Both bank and non-bank participants must meet minimum capital requirements and must report regularly to their respective regulator – CBR and FFMS.

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 SH since they manage the securities and cash accounts.

Participants in the Negotiated 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 SH when holding securities and cash accounts.

However, with MICEX, the risk is managed by restrictions on the MICEX SH activities - it is a unique purpose company that does not provide credit or other commercial activities. Its accounts are with the CBR, which mitigates exposure to MICEX SH.

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 SH 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 SH. The DVP process is on a near-simultaneous basis.

Role of Central Counterparty (CCP)

The National Clearing Centre (NCC) is the central counterparty for MICEX-trades, which currently include FX transactions. MICEX guarantees the performance of the NCC's obligations for transactions concluded in the course of trading in case the NCC fails to perform appropriate obligations for up to RUB 2.6 billion.

The CCP functions are expected to be expanded to MICEX Stock Exchange trades at a later stage, but no specific date has been announced.

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 2007 there were 1,742 depository accounts open in NDC, for 817 participants.

Neither NDC nor the MICEX SH 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 where stated. 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 and RUB 100 million from 1 January 2009
- for trade organisation on securities market: RUB 60 million
- for stock exchange activity: RUB 100 million 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 agreement for the provision of technical services to the participants sub-depository which effectively constrains the operation of the participant's state federal bond sub-account.

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

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

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 of transactions processed through NDC for the top 10 direct participants (excluding DCC) were provided. Based on this information, the concentration of business appears reasonable given the large number of depository participants (817). In 2007, the top 10 participants accounted for about 42.5% of trades by value and the largest participant accounted for 9.76% by value.

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.

Bank's are supervised by the CBR.

The FFMS monitors non-bank minimum capital requirements through a quarterly reporting regime. MICEX also monitors participant's compliance with its regulations and rules through quarterly returns that include financial and trading information. FFMS also outsource the audit process to PARTAD and NAUFOR (a self-regulatory 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.

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 2007 was RUB 63 million (USD 2.69 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 63 million (USD 2.69 million) as at 31 December 2007.

Does the CSD act as a central counterparty
No

Comments
NCC acts as a CCP for MICEX FX trades.

Participant Concentration (Local Currency Millions)

Value of transactions in the market by top 10% of participants
(Excluding DCC) 42.5% 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 2007 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 five data vendors regarding important information, Interfax and AK&M, AZIPI-Info, Prime-TASS, Skrin, 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, issuers and paying agents 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.

NDC is obliged to provide each registry as required with beneficial owners lists and addresses as required ahead of any action as at a particular date. For those registries linked to EDI, this process is automated and efficient in that NDC can create the appropriate fileonline from the system and sent it directly to the registry through EDI. Also adding to the efficiency of this process, participants are able to maintain their core contact details online.

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 2007, NDC had 390 agreements with issuers of fixed interest securities to act as 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 processes on the basis of the issue 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. Participants are not able to send instructions via SWIFT. 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.

NDC does not provide an automatic reminder of instructions to participants although it is able to monitor if a participant has provided a response. 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 House. 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. There is no specific payment date for equities in Russia, but rather a payment period when issuers distribute dividend payments which can take several days or weeks. NDC distributes dividends to participants' bank accounts no later than the 3rd day after it receives the dividends from the issuer or transfer agent. In 90% of the cases, dividends are distributed not later than the next business day.

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 House) NDC is liable to their participants but will pass this to the third party.

During 2007, NDC handled dividend, coupon and principal payments to the value of RUB 80.97 billion (USD 3.44 billion), of which RUB 64.79 billion (USD 2.75 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.

Russian law does not allow electronic voting by either the shareholder or its authorised representative. Thus, the ballot must always be the original paper document provided by the issuer.

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

520
Interest & Redemptions 520
Corporate actions 243 global transactions, ie conversions, splits, consolidations)
Notification via SWIFT message, proprietary electronic, internet/e-mail and mail.
SWIFT message types Yes
Notification within Same day

Instruction processing

Use of depository Mandatory for some fixed income securities
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 had net capital at RUB 1.35 billion (USD 56 million) in 2007. NDC seems to be comparatively well capitalised. Future revenues are largely assured since about 60% 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 2009.

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 1.35 billion (USD 56 million) as of 31 December, 2007, a 43% increase compared to the capital reported in 2006 (RUB 916.23 million). Since NDC is a not-for-profit partnership, its capital comes from initial capital (constituted by entrance fee), direct financing and retained earnings.

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 250 million).

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. Safekeeping fees were reduced by 15% in 2007.

Despite being a not-for-profit organisation, NDC has reported significant profits over the last five plus years. Profit after tax increased in 2007 (by around 16% compared to 2006) to RUB 393 million (USD 16.75 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.

90% of income in corporate and government securities is derived from safekeeping services and only 10% from settlement activities. Revenues in the equity market are more equally split between safekeeping and settlement services (55% - settlement, 45% - safekeeping). Overall, over 60% of NDC's income in 2007 was derived from safekeeping services.

Since over 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 does have an uncommitted credit line with an International Moscow Bank worth USD 10 million.

Insurance

In 2007 NDC purchased regular comprehensive crime and professional liability policy from Ingosstakh Insurance Co. The coverage period is from 1 September 2007 to 31 August 2008 and the limit of indemnity was set at USD 50 million per single claim as well as for all claims made during the term of the policy. This has a deductible of USD 250,000.

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
 16. Expenses from elimination of after-effects of losses;
- Losses from operations with fake securities;
- Losses of Insured suffered in connection with unauthorised entry into computer systems;
- Losses suffered from unauthorised entry of commands into the computer system of Insured's client including those cases when Insured entity acts as the processing company;
- Losses suffered from entry of fraudulent electronic commands into Insured's computer system;
- Insured'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 Insured'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 , Eclearsettle System, to support its operation as a central securities depository and is working with Tata Consultancy Services for this purpose. The total cost of the project capitalised over a three-year period. Stage 1 of the project has been completed while stages 2 and 3 are due to be completed in March 2009 and December 2009, respectively.

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
- JSC VTB Bank
- 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
Retained earnings	1,309,339
Total	1,309,339

Comments

Statistics (in RUB thousands) as of 31 December 2007 - calculated on international standards

Lines of stock

	2004	2005	2006	2007	2008
Lines of stock	1,047	1,418	1,736	2,403	-
% Stock Exchange transactions cleared and settled through CSD	100	100	100	100	-
Total value of securities under custody	1,319 (RUB billion)	1,511 (RUB billion)	3,071 (RUB billion)	4,029 (RUB billion)	-

Comments

Figures as at 31 December.

Equities

	2004	2005	2006	2007	2008
Market Value	153	257	1,140	1,613	-
% of issued securities in the CSD	N/A	N/A	N/A	N/A	-
% of market capitalisation in the CSD	N/A	N/A	N/A	N/A	-

Comments

RUB billion
All figures as at 31 December

Fixed Income

	2004	2005	2006	2007	2008
Market Value	418	1,221.6	1,828	2,315	-
% of issued securities in the CSD	99%	99%	99%	99%	-
% of market capitalisation in the CSD	99%	99%	99%	99%	-

Comments

Corporate bonds, RUB billion (value at par)
All figures as at 31 December

Money Markets

	2004	2005	2006	2007	2008
Market Value	766.8	32.9	102	100.7	-
% of issued securities in the CSD	100%	100%	100%	100%	-
% of market capitalisation in the CSD	100%	100%	100%	100%	-

Comments

Government debt, RUB billion
All figures as at 31 December

Expenses

	2004	2005	2006	2007	2008
Expenses as % total operating revenue	55%	56%	53%	58%	-

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's 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 has continued to automate operational processes through use of its EDI system. NDC maintains a near hot DRP capacity at a new DRP facility that it shares with MICEX. NDC conducts DRP tests twice annually, the most recent being in June 2008.

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 members are required to carry company ID cards and visitors to the premises are issued with visitor's passes. There are some access restrictions to certain areas for personnel and external visitors.

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.

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. This facility allows participants to extract an electronic file to automate the reconciliation of their securities held with NDC.

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 Internal control undertakes regular operational audits, reviews; all new operational processes and associated staff procedures which are required to be documented; and all consequential operational errors. Internal control also checks that the staff are trained in the correct procedures. Internal control is supported by a small group of staff within the Operations Department who oversee quality control on a daily basis. This is the second year that NDC has engaged Deloitte & Touche to undertake an external audit of its operational controls. The external audit report highlights that controls are in place and are being properly applied within NDC, although it highlighted some minor areas for improvement. However, the audit scope does not include a regular audit of IT operations and major IT projects.

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 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 double-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 BCP 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. This year NDC moved to new premises but have retained some staff working from their old premises which were shared with MICEX. This arrangement adds depth to the BCP arrangements in that the staff are familiar with the premises and support facilities and services are available from MICEX.

A stand-by computer centre has been set up outside Moscow 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 back-up site can be brought up remotely from the main site.

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 RAID's are used - XP256 for the main system and XP128 for reserve system. RAID's are connected by optical channel. Data are mirrored and there is at least double redundancy for all telecommunication equipment.

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.

In 2007, a new back-up centre was established by MICEX outside the centre of Moscow. NDC maintains a capacity to revert its systems seamlessly (within minutes) to the DR operation. NDC's 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 June 2008 but did not involve participants. No live test has ever been executed to date.

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. The system capacity is 3 - 5 times normal requirements.

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

Yes

Material errors have been identified

Yes

CSD on CSD (Credit) Risk

Summary

NDC has accounts with Clearstream and Euroclear bank.

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 nominee accounts with the Central Securities Depository of Kazakhstan and CJSC National Depository Centre of Azerbaijan, which allow NDC to provide its clients with depository services for safekeeping of Kazakhstan and Azerbaijan 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. A limited number of the most liquid equities can be transferred through the bridge (As of July 2008 there were 262 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 2007 there were 24,078 transactions across the bridge of value RUB 1,100 billion (a 136% increase compared to 2006). As at July 2008, there were 262 securities from 87 issuers 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., Euroclear Bank, the Central Securities Depository of Kazakhstan and CJSC National Depository Centre of Azerbaijan.

Domestic links - Depository Clearing Company (DCC).

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 four representatives from the NDC founders and six from major stock market participants including one independent director. 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 quarterly report documents and copies of quarterly financial statements to FFMS.

Financial audits are carried out by the NDC's external auditors, Deloitte Touche, and the audit is reviewed by the Audit Commission. Deloitte Touche 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 members 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.

About the Depository	Segregation of Assets at the Depository
Name and Address National Depository Center (NDC) Sredni Kislovski puriulok, 1/13, bld.4 Moscow 125009 Russia	Depository assets from participants Yes
Website www.ndc.ru	Participant assets from clients Yes
Date of establishment January 1997	Eligible Securities Depository under SEC Rule 17f-7
Date commenced operations March 1998	System of central handling of securities Yes
	Regulated by a financial regulatory authority Yes

Legal status

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

Type of legal entity

Not-for-profit partnership.

Regulated by

Federal Financial Markets Service of the Russian Federation (FFMS)

Is use of the CSD required?

	Settlement	Safekeeping
By Law	No	Yes
By Market Practice	Yes	Yes

How securities are held

Dematerialised

Domestic eligible participants

Stock Exchange, Central Bank, banks and brokers. As at 1 January 2008 there were 817 participants.

Foreign eligible participants

8

Ownership

Stock Exchange, Central Bank, banks.

Holds assets of all participants on equivalent terms
Yes

Identifies and segregates participant assets
Yes

Periodic reports to participants
Yes

Periodic examination by a regulator or independent accountant
Yes

Comments

Although NDC operates a system for the central handling of securities that is regulated by FFMS, the Russian regulatory authority has not yet established a law that determines the status of the central depository. This is currently being drafted and will provide details on the principles for a central depository's operations. While NDC is the depository for most of bonds, there are multiple depositories for shares. Use of NDC is required for MICEX and MICEX SE transactions.

Internal Safety Measures

Services Provided

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

Definition

Publication Date

The publication date represented here is July 2007. This is the date that the assessment report has been reviewed by third parties including the CSD. The report is updated on an on-going basis throughout the year as new information is received and should be read in conjunction with the relevant newflashes issued since the publication date.

RISK EXPOSURE DEFINITIONS

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

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

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

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

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

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

RATING SCALE

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

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Thomas Murray Depository Service
International House
21 Hanover Street
London W1S 1YU

Tel: +44 (0) 207 830 8300
Fax: +44 (0) 207 287 1549

E-mail: depositoryservice@thomasmurray.com
Web-site: www.thomasmurray.com

Names of analysts available on request.

Report Date
Russia
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