

# CORPORATE GOVERNANCE REPORT

## 2018



**NATIONAL  
SETTLEMENT  
DEPOSITORY**  
MOSCOW EXCHANGE GROUP

# TABLE OF CONTENTS

## 01. Corporate Governance

CORPORATE GOVERNANCE PRINCIPLES

COMPLIANCE WITH THE RECOMMENDATIONS  
IN THE CORPORATE GOVERNANCE CODE

SUPERVISORY BOARD'S PERFORMANCE  
REPORT FOR 2018

NSD'S CORPORATE GOVERNANCE STRUCTURE

NSD'S MANAGEMENT BODIES

COMMITTEES AND COMMISSIONS

SHAREHOLDERS

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

REMUNERATION OF NSD'S SUPERVISORY  
BOARD MEMBERS

## 02. Risk Management

RISK PROFILE

THE KEY RISK FACTORS ASSOCIATED  
WITH NSD'S OPERATIONS ARE DESCRIBED BELOW

KEY MILESTONES IN RISK MANAGEMENT IN 2018

PLANS FOR 2019

## 03. Business Continuity

## 04. Corporate Social Responsibility

PROMOTING FINANCIAL LITERACY  
AMONG THE POPULATION

ASSISTANCE TO CHILDREN

ASSISTANCE TO VETERANS AND DISABLED PEOPLE

CORPORATE VOLUNTEERING

## 05. Human Capital

HR MANAGEMENT

SOCIAL SECURITY  
AND CORPORATE WELLNESS

EMPLOYEE ENGAGEMENT  
AS A KEY TO SUCCESSFUL FUTURE  
PERFORMANCE

BUILDING EXECUTIVE  
LEADERSHIP CAPACITY

MAINTAINING THE COMPANY'S  
INNOVATIVE ENVIRONMENT

DEVELOPING NSD'S HR BRAND –  
RECRUITING BEST SPECIALISTS

## 06. General Information on NSD's Activities

INFORMATION DISCLOSURE

AUDIT

INTERNAL CONTROL

INFORMATION SECURITY

NSD'S INTERESTS IN OTHER ENTITIES

01

# CORPORATE GOVERNANCE

At NSD, corporate governance means that the principles and rules of managing and controlling the company and governing relationships between the company's executive bodies, Supervisory Board, shareholders, and other stakeholders (participants of corporate relationships), are aimed at setting NSD's objectives and determining the means to achieve them.

As the CSD, NSD is committed to satisfying the interests of its clients, regulators, and financial market participants.

# CORPORATE GOVERNANCE PRINCIPLES

NSD adheres to the key OECD/G20 principles of corporate governance reflected in the Shareholders Agreement with respect to NSD, under which the corporate governance system should:

- enable shareholders to exercise their ownership rights;
- ensure the equitable treatment of shareholders;
- recognize the rights of stakeholders established by law;
- ensure the strategic guidance of NSD and that the Supervisory Board efficiently monitors performance of NSD's executive bodies;
- enable NSD's executive bodies to run NSD's day-to-day operations to ensure the company's long-term and sustainable development;
- ensure accountability of the executive bodies to the Supervisory Board and NSD's shareholders;
- ensure that timely and accurate disclosure is made on all material matters regarding NSD, including its financial situation, performance, ownership, and governance; and
- ensure effective control over NSD's financial and business activities with a view to safeguarding the rights and legitimate interests of shareholders and other stakeholders.

In corporate governance processes, NSD follows the principles recommended by Moscow Exchange and set out in the Moscow Exchange's Corporate Governance Code, including the principle that requires acting in the best interests of users of services provided by Moscow Exchange Group companies, the principle of corporate social responsibility, and other principles.

The Supervisory Board is responsible for strategic management of NSD and exercises effective control over the performance of the Executive Board and the Executive Board Chairman.

- The Supervisory Board is also responsible for defining the company's development strategy, exercising effective control over the company's financial and business activities, and approving the company's budgets.
- The composition of the Supervisory Board ensures the most effective performance of its functions.
- The Supervisory Board members actively participate in Supervisory Board meetings, as well as meetings of the Supervisory Board Committees.
- Supervisory Board meetings are convened on a regular basis, either in the form of in-person meetings or in the form of meetings in absentia, depending on the importance of the agenda matters and in accordance with the meeting schedule.
- The Regulations on the Supervisory Board set out, in detail, the procedure for arranging and holding Supervisory Board meetings.
- The Supervisory Board comprises the Budget Committee, the Audit Committee, the Nomination and Remuneration Committee, the Strategy Committee, and the Technological Policy and Development Committee.
- In accordance with NSD's Articles of Association, the Supervisory Board may establish any other standing or ad-hoc committees, as well as Customer Committees responsible for certain key areas of NSD's business in order to deal with any current issues.
- The Supervisory Board is responsible for ensuring the effective performance of the Executive Board and the Chairman of the Executive Board, as well as for exercising control over their performance.

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

- In accordance with NSD's Articles of Association, the Executive Board is authorized to deal with the most complex issues arising in the company's day-to-day operations.
- The composition of the Executive Board ensures that NSD's executive bodies carry out their functions most effectively.

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

- NSD's shareholders enjoy equal rights to gain access to all corporate information.
- NSD's shareholders and other stakeholders may receive full and accurate information, including information on NSD's financial standing, performance, governance, shareholders, and any material facts that affect NSD's financial and business activities.

- NSD has controls in place to ensure that its confidential information remains confidential, and the use of the same is monitored.

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

In accordance with clause 12.3.26.9 of NSD's Articles of Association, the company's corporate governance system is assessed on at least an annual basis. In 2018, NSD's corporate governance system was assessed, and upon completion of the assessment, a corporate governance report was prepared and approved by the Supervisory Board.

## COMPLIANCE WITH THE RECOMMENDATIONS IN THE CORPORATE GOVERNANCE CODE

As a non-public joint-stock company, NSD is not subject to the provisions of Bank of Russia's Regulations No. 454-P dated 20 December 2014 «On Information Disclosure by Securities Issuers» which require that a joint-stock company's annual report contain information on compliance with the principles and recommendations set out in the Corporate Governance Code recommended by the Bank of Russia for application by joint-stock companies.

Nevertheless, NSD seeks to follow the best standards of corporate governance, including the most important principles and recommendations set out in the Corporate Governance Code.

In particular, NSD's corporate governance framework is based not only on the Russian statutory provisions, but also on the principles laid down in the Corporate Governance Code, which evidences a rather mature level of corporate governance at the company. NSD thoroughly analyzes both positive and negative consequences of implementing specific recommendations set out in the Code. In doing so, NSD also takes into account the company's current corporate governance practices, shareholders' expectations, the current economic situation, and applicable regulatory guidelines. For NSD, the Corporate Governance Code is a source of best practices to be taken into account in drafting the company's internal regulations and a benchmark helping shape the best corporate governance system.

# SUPERVISORY BOARD'S PERFORMANCE REPORT FOR 2018

In 2018, as in the previous years, a number of foreign experts joined the Supervisory Board to ensure that its decision-making process takes global trends and expertise into account.

The Supervisory Board performed the overall management of NSD's operations and held 16 meetings during the reporting year, including five in-person meetings.

At its meetings, the Supervisory Board took decisions on key issues relating to NSD's financial and business activities and business development, including the following:

- monitoring indicators for NSD's priority areas of business in 2018;
- approval of NSD's priorities and areas of focus in 2019, and monitoring indicators for NSD's priority areas of business in 2019;
- implementation of NSD's Revenues, Costs and Income Budget and NSD's Capital Expenditures Budget for 2018;
- approval of NSD's Revenues, Costs and Income Budget and NSD's Capital Expenditures Budget for 2019;
- preliminary approval of NSD's Annual Report for 2017;
- approval of the fees payable to NSD's independent auditor;
- amendments to NSD's Fee Schedules;
- addressing various matters relating to the launch of the project «Central Operator of Individual Pension Capital»;

- completion of the Projects Program "Corporate Actions Processing Using a 'Cascade' Method";
- review of NSD's quarterly performance reports prepared by the Executive Board; and
- addressing various matters relating to remuneration of the members of NSD's executive bodies.

Also, the Supervisory Board gave a great deal of attention to addressing and deciding on issues of corporate governance at NSD, in particular:

- assessment of the state of corporate governance at NSD;
- assessment of NSD's internal control system;
- recommendations as to the sale of NSD's shares;
- election of members of NSD's Executive Board, and authorizing Executive Board members to hold positions in management bodies of other organizations;
- convocation of the annual General Meeting of Shareholders in 2018;
- recommendations to the annual General Meeting of Shareholders in 2018; and
- election of new members of Supervisory Board Committees and Customer Committees.

In addition, decisions were taken on issues relating to NSD's operational efficiency and amendments to, and approval of, NSD's internal regulations, including the following issues:

- review of reports submitted by NSD's Internal Control and Internal Audit Departments, approval of the Internal Audit Department's work plan, and review of CSD controller's performance reports;
- head of NSD's Internal Audit Department;
- assessment of risks and of the effectiveness of risk management at NSD;
- review of stress testing and ICAAP reports;
- review of the report on the implementation of NSD's Risk Management Development Strategy for 2017;
- review of the Executive Board Chairman's report regarding management of the Trade Repository's regulatory risk for 2017;
- review of NSD's Customer Satisfaction Index Report;
- approval of the estimated level of NSD's economic capital for 2018;
- approval of NSD's Key Performance Indicators (KPIs) for 2018, and making changes thereto; and
- approval of NSD's internal regulations:
  - amended and restated Clearing Rules;
  - Internal Control Rules on Anti-Money Laundering, Combating the Financing of Terrorism and Financing of the Proliferation of Weapons of Mass Destruction;
  - amended and restated Terms and Conditions of Depository Operations;
  - amended and restated Electronic Communication Rules;
  - amended and restated Client Policy;
  - Regulations on the Strategy Committee of NSD's Supervisory Board;

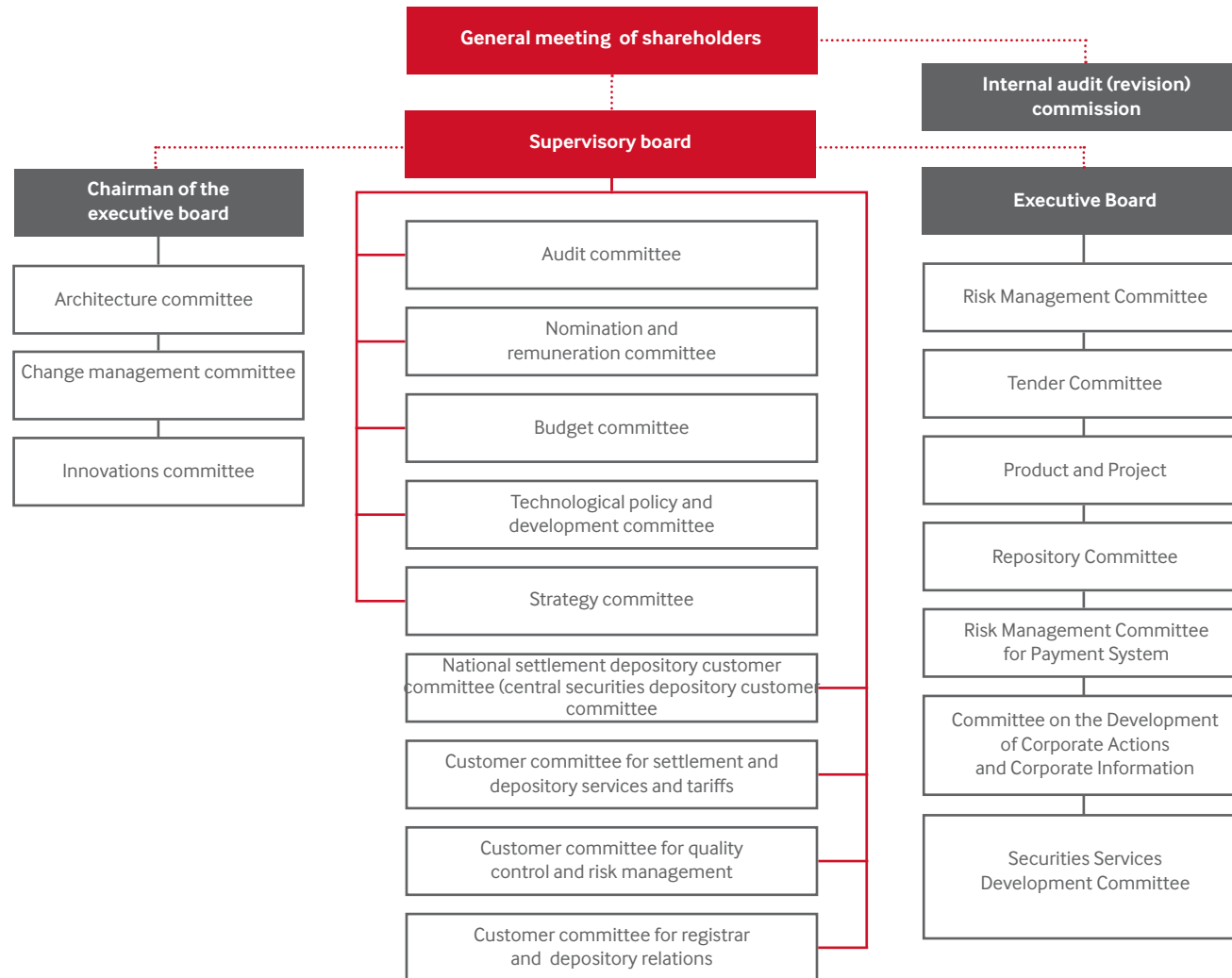
- amended and restated Business Continuity Policy;
- amended and restated Business Continuity Strategy;
- amended and restated Regulations on Investment of NSD's Temporarily Free Cash Funds;
- amended and restated Risk and Capital Management Strategy; and
- amended and restated Guidelines on Handling Clients' Complaints and Enquiries.

In 2018, the Supervisory Board conducted an assessment of its performance in accordance with the methodology recommended by the Bank of Russia in its Letter No. 11-T dated 7 February 2007. The assessment covered the following:

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

The assessment involved completing a questionnaire by the Supervisory Board members. The final assessment report was presented and approved at an in-person meeting of the Supervisory Board.

# NSD'S CORPORATE GOVERNANCE STRUCTURE





# NSD'S MANAGEMENT BODIES

| Body                                   | Mission   |
|--|---|
| <b>General Meeting of Shareholders</b> | <p>The General Meeting of Shareholders is NSD's superior management body. General Meetings are convened at least once a year.</p> <p>The General Meeting takes decisions on key matters relating to NSD's activities. The list of matters reserved to the General Meeting is set out in Federal Law No. 208-FZ dated 26 December 1995 "On Joint-Stock Companies" and NSD's Articles of Association.</p>           |
| <b>Supervisory Board</b>               | <p>The Supervisory Board is NSD's superior management body exercising management functions during the periods between General Meetings. Supervisory Board members are elected by the General Meeting of Shareholders for the period until the next annual General Meeting. The proceedings of the Supervisory Board are governed by the Regulations on the Supervisory Board approved by the General Meeting.</p> |
| <b>Chairman of the Executive Board</b> | <p>The Chairman of the Executive Board is the chief executive officer of NSD. The Chairman of the Executive Board is appointed by the Supervisory Board for a term of three years.</p>  |
| <b>Executive Board</b>                 | <p>The Executive Board is NSD's collegial executive body. Executive Board members are appointed by the Supervisory Board for a term of two years. The proceedings of the Executive Board are governed by the Regulations on the Executive Board approved by the General Meeting.</p>  |

# COMMITTEES AND COMMISSIONS

Additional information regarding NSD's Committees and Commissions is available on page 54 of this Report.

## Internal Audit Commission

| Committee                        | Mission   |
|----------------------------------|---|
| <b>Internal Audit Commission</b> | The Internal Audit Commission is the controlling body responsible for exercising internal control over NSD's financial and business activities. Members of the Internal Audit Commission are elected at annual General Meetings of Shareholders. The proceedings of NSD's Internal Audit Commission are governed by the Regulations on the Internal Audit Commission approved by the General Meeting. |

## Supervisory Board Committees

| Committee   | Mission   |
|---|---|
| <b>Audit Committee</b>                                | Ensuring efficient work of NSD's Supervisory Board in organizing the internal control and external audit system, as well as risk management at NSD.   |
| <b>Budget Committee</b>                               | Improving the efficiency of NSD's Supervisory Board by ensuring proper control over the way funds are received and spent at NSD. The Committee thoroughly prepares materials to be considered at meetings of NSD's Supervisory Board relating to financial planning and financial resources management at NSD.  |
| <b>Nomination and Remuneration Committee</b>          | In-depth analysis of matters relating to the recruitment, assessment and remuneration of NSD's senior managers, including Supervisory Board members, the Chairman of the Executive Board, Executive Board members, and members of the Internal Audit Commission, and preparation of materials to be considered at Supervisory Board meetings.           |
| <b>Technological Policy and Development Committee</b> | Analysis of development of NSD's IT systems, and making recommendations to the Supervisory Board and the Executive Board on matters relating to the technological policy pertaining to the creation, maintenance, operation, and development of IT systems.   |
| <b>Strategy Committee</b>                             | Making recommendations to NSD's Supervisory Board as to the worst-case, baseline, and best-case scenarios and the strategy of NSD's development for a new period. Monitoring the progress in the implementation of NSD's current strategy, assessing the need to adjust NSD's current strategy, and making relevant proposals to the Supervisory Board. |

## Customer Committees of the Supervisory Board

| Committee   | Mission   |
|---|---|
| <b>Customer Committee for Quality Control and Risk Management</b>   | Making recommendations to the Supervisory Board and/or the executive bodies on the client and marketing policy, improving the quality of client service, and approval of internal regulations relating to clearing activities.                              |
| <b>Customer Committee for Settlement and Depository Services and Tariffs</b>                                | Analysing customers' needs, making recommendations to the Supervisory Board and/or the executive bodies for the development of depository and settlement products and NSD's pricing policy.   |
| <b>Customer Committee for Registrar and Depository Relations</b>  | Making recommendations to the Supervisory Board and/or the executive bodies to improve existing methods of interaction between NSD and registrars, and proposals to change existing technologies being used for the interaction between NSD and registrars. |
| <b>National Settlement Depository Customer Committee (Central Securities Depository Customer Committee)</b> | Approval of internal regulations of NSD as the central securities depository and NSD's fees for depository services.  |

## Committees of the Executive Board

| Committee   | Mission   |
|---|---|
| <b>Risk Management Committee</b>  | Assistance to the Executive Board in the field of corporate governance and risk management improvement.   |
| <b>Tender Committee</b>   | Securing the best terms for procuring goods, services, and works needed to support NSD's operations, and minimizing the risk of NSD's contractors failing to deliver. |
| <b>Product and Project Committee</b>  | NSD's project management.   |
| <b>Repository Services User Committee</b>   | Considering proposals and making recommendations to the Executive Board for the development and improvement of NSD's trade repository activities.                     |
| <b>Risk Management Committee for Payment System</b>                                       | Considering proposals and making recommendations to NSD's executive bodies in the field of risk management in the NSD Payment System.                                 |
| <b>Committee on the Development of Corporate Actions and Corporate Information Center</b> | Considering proposals and making recommendations to NSD's Executive Board for the development of the Corporate Actions and Corporate Information Center.              |
| <b>Securities Services Development Committee<sup>1</sup></b>                              | Considering proposals and formulating recommendations on various issues associated with NSD's securities services.  |

<sup>1</sup> Established by the Executive Board's decision dated 13 September 2018; the first members of the Committee were elected on 6 December 2018.

## Committees of the Chairman of the Executive Board

| Committee                      | Mission  |
|--------------------------------|--|
| <b>Architectural Committee</b> | Making proposals to ensure uninterrupted operation of IT infrastructure, development of the IT strategy, and monitoring its implementation.  |
| <b>Update Committee</b>        | Quality analysis of controls in the course of updating software or IT infrastructure, and risk management in the course of making updates.   |
| <b>Innovations Committee</b>   | Development of innovative ideas to create new products and services and to improve the competitiveness of NSD's existing products and services, as well as development of NSD's innovative capacity. |

## Supervisory Board members elected at the annual General Meeting of Shareholders on 30 May 2017<sup>1</sup>

|                          |                            |                            |
|--------------------------|----------------------------|----------------------------|
| <b>Eddie Astanin</b>     | <b>Alexander Afanasiev</b> | <b>Paul Anne F. Bodart</b> |
| <b>Mikhail Bratanov</b>  | <b>Oleg Vyugin</b>         | <b>Bella Zlatkis</b>       |
| <b>Sergey Lykov</b>      | <b>Igor Marich</b>         | <b>Paul James Ostling</b>  |
| <b>Andrey Popov</b>      | <b>Nadezhda Ushakova</b>   | <b>Tatiana Fomina</b>      |
| <b>Tatiana Chepeleva</b> | <b>Dmitry Shcheglov</b>    | <b>Ilya Yuzhanov</b>       |

<sup>1</sup> Information on the Supervisory Board members elected on 30 May 2017 is available in NSD's Annual Report for 2017.

## Supervisory Board members elected at the annual General Meeting of Shareholders on 31 May 2018. Information on the Supervisory Board Members<sup>1</sup>

### Eddie Astanin

**Date of birth:**

16 December 1961

**Education:**

- 1984. Mozhaisky Military Engineering Institute.
- 1996. Institute for Further Training and Qualification Upgrade in Finance and Banking at the Finance Academy under the Government of the Russian Federation.

1992. Ph.D. in Engineering Sciences.

**Positions held in the last 5 years, including membership in other organizations' management bodies:**

| Organization  | Position                           | Dates of appointment/election and resignation/removal |
|---|------------------------------------|---|
| National Settlement Depository                                    | Chairman of the Executive Board    | From 11 November 2010                                 |
| S.W.I.F.T.  | Member of the Board of Directors   | From 11 June 2015                                     |
| Settlement Depository Company (Joint Stock Company)               | Member of the Board of Directors   | From 29 March 2018                                    |
| Stock Company Saint-Petersburg Currency Exchange                  | Member of the Board of Directors   | 31 May 2012 – 28 June 2018                            |
| Petersburg Settlement Center Limited                              | Member of the Board of Directors   | 19 May 2011 – 18 May 2017                             |
| Self-Regulatory Organization "National Finance Association" (NFA) | Board member                       | 20 April 2011 – 13 April 2017                         |
| Closed Joint-Stock Company "Depository Clearing Company"          | Chairman of the Board of Directors | 28 June 2012 – 16 December 2014                       |
| Settlement Depository Company (Joint Stock Company)               | Member of the Board of Directors   | 23 May 2013 – 16 May 2014                             |

### Alexander Afanasiev

<sup>1</sup> As of 31 December 2018.

**Date of birth:**

12 January 1962

**Education:**

- 1984. Moscow Finance Institute.
- 1987. Moscow Finance Institute, post-graduate course.

**Positions held in the last 5 years, including membership in other organizations' management bodies:**

| Organization  | Position                         | Dates of appointment /election and resignation / removal |
|---|----------------------------------|--|
| Public Joint-Stock Company Moscow Exchange MICEX-RTS (Moscow Exchange)                                    | Member of the Executive Board    | 25 June 2013 – 26 April 2018                             |
| Central Counterparty National Clearing Centre   | Supervisory Board member         | From 28 June 2011  |
| International Association of Exchanges of the Commonwealth of Independent States Countries (MICEX of CIS) | Board member                     | From 20 September 2013                                   |
| Non-Governmental Organization "Russian Union of Industrialists and Entrepreneurs"                         | Member of the Management Board   | From 21 March 2013                                       |
| All-Russian Association of Employers "Russian Union of Industrialists and Entrepreneurs"                  | Member of the Management Board   | From 21 March 2013                                       |
| NATIONAL FOREIGN EXCHANGE ASSOCIATION   | Board Co-chairperson             | 7 December 2004 – 20 November 2013                       |
| Self-Regulatory Organization "National Finance Association" (NFA)   | Member of the Board of Directors | 19 May 2009 – 22 April 2014                              |

**Paul Anne F. Bodart**

Independent director

**Date of birth:**

22 January 1953

**Education:**

- 1976. Universite Catholique de Louvain, Belgium.
- 1986. INSEAD, Fontainebleau, France.

**Positions held in the last 5 years, including membership in other organizations' management bodies:**

| Organization                                      | Position  | Dates of appointment/election and resignation/removal |
|---|---|---|
| Belfius Bank S.A.                                 | Independent director and member of the Audit Committee    | From 2016   |
| Solvay Business School of the Brussels University | Professor in the Post Master in Financial Markets program | From 2013   |
| European Central Bank                             | T2S Board Member  | July 2012 – December 2015                             |
| Dexia SA  | Independent director and Chairman of the Audit Committee  | January 2013 – November 2016                          |

**Mikhail Bratanov****Date of birth:**

16 May 1973



**Education:**

- 1996. Moscow Institute of Electronic Technology (Technical University) (MIET).
- 2003. Moscow Institute of Electronic Technology (Technical University) (MIET), post-graduate course, Ph.D. (Economics).
- 2011. The Moscow School of Management SKOLKOVO, Executive MBA.
- 2014: Institute of Directors (IoD), London, Great Britain, Cert IoD, Dip IoD,  
2017: IoD Chartered Director.

**Positions held in the last 5 years, including membership in other organizations' management bodies:**

| Organization  | Position  | Dates of appointment/election and resignation/removal     |
|---|---|---|
| PJSC ROSBANK  | Regional Head of Societe Generale Securities Services (Russia and CIS), Head of Securities Services | From 1 February 2007                                      |
| Public Joint-Stock Company Moscow Exchange MICEX- RTS (Moscow Exchange)           | Supervisory Board member  | 16 September 2011 – 27 April 2016, and from 26 April 2018 |
| Professional Association of Registrars, Transfer Agents and Depositories (PARTAD) | Member of the Board of Directors  | From 10 July 2008   |
| RB Specialized Depository LLC   | Member of the Board of Directors  | From 11 May 2016  |
| Russian National Reinsurance Company  | Supervisory Board member  | From 29 July 2016   |
| Self-Regulatory Organization "National Finance Association" (NFA)                 | Member of the Board of Directors  | From 13 April 2017  |
| Association "Improvement of Cottage Settlement "Pestovo"                          | Chairman of the Management Board  | From 7 April 2018   |

**Oleg Vyugin****Date of birth:**

29 July 1952

**Education:**

- 1974. Lomonosov Moscow State University.
- 1978. Lomonosov Moscow State University, post-graduate course.

**Positions held in the last 5 years, including membership in other organizations' management bodies:**

| Organization  | Position  | Dates of appointment/election and resignation/removal |
|---|---|---|
| Federal State Autonomous Educational Budgetary Institution of Higher Professional Education "National Research University Higher School of Economics" | Professor of the School of Finance, Faculty of Economics  | From 1 June 2007                                      |
| Rosneft Oil Company PJSC  | Member of the Board of Directors  | From 17 June 2005                                     |
| NAUFOR  | Member of the Board of Directors,<br>Chairman of the Board of Directors from 14 September 2010  | From 3 June 2010                                      |
| Public Joint-Stock Company Moscow Exchange MICEX-RTS (Moscow Exchange)  | Supervisory Board member,<br>Supervisory Board Chairman from 26 April 2018                      | From 27 April 2017                                    |
| Center for Strategic Research Foundation  | Board member  | From 7 February 2002                                  |
| Skolkovo – Venture Investments  | Member of the Board of Directors  | From 22 March 2017                                    |
| PJSC SAFMAR Financial Investments   | Chairman of the Board of Directors  | From 26 June 2017                                     |
| Umpro PJSC  | Member of the Board of Directors  | From 7 December 2017                                  |
| National Settlement Depository  | Supervisory Board member, Supervisory Board Deputy Chairperson from 26 June 2013 to 31 May 2018 | From 26 April 2011                                    |
| The New Economic School Endowment Fund  | Member of the Board of Trustees   | From 2 July 2008                                      |
| European University at St. Petersburg (EUSP) Endowment Fund   | Member of the Board of Trustees   | From 15 February 2008                                 |
| Not-For-Profit Fund "Analytical Center Forum"   | Member of the Board of Trustees   | From 26 April 2011                                    |

| Organization   | Position   | Dates of appointment/election and resignation/removal |
|--|--|---|
| National Council on Corporate Governance   | Presidium member   | From 9 September 2011                                 |
| Youth Enterprise Support Fund "AGATE"  | Board member   | From 19 July 2016                                     |
| B&NBANK PJSC (known as MDM Bank before 18 November 2016, and URSA Bank before 6 August 2009) | Chairman of the Board of Directors from 7 August 2009 – 18.11.2016<br>Member of the Board of Directors | 29 July 2009 – 28 February 2017                       |
| Russian Association of Independent Directors   | Supervisory Board member   | 28 February 2012 – 23 April 2015                      |
|  | Member of the Board of Directors   | 16 July 2008 – 28 June 2012                           |
| Transneft  | Member of the Board of Directors (professional attorney)   | 28 June 2013 – 30 June 2015                           |
| Association of Russian Banks   | Board member   | 2 April 2008 – 3 April 2013                           |

## Andrey Golikov

### Date of birth:

14 March 1969

### Education:

- 1991. Lomonosov Moscow State University.
- 2016. Institute of Directors (IoD), UK, IOD Diploma in Company Direction

**Positions held in the last 5 years, including membership in other organizations' management bodies:**

| Organization  | Position  | Dates of appointment/election and resignation/removal |
|---|---|---|
| Sberbank of Russia  | Vice President, Head of Treasury and Financial Markets Department | 12 May 2009 – 14 July 2011                            |
| Strana Detey ZAO  | Head of Investment & Commerce                                     | 15 February 2012 – 31 January 2014                    |
| Public Joint-Stock Company Moscow Exchange MICEX- RTS (Moscow Exchange) | Deputy Chairman of the Supervisory Board                          | From 24 April 2003                                    |
| Central Counterparty National Clearing Centre                           | Supervisory Board member  | 29 May 2008 – 28 June 2013, and from 30 June 2014     |
| Self-Regulatory Organization "National Finance Association" (NFA)       | Co-chairperson of the Board of Directors                          | From 13 April 2017                                    |

## Yuri Denisov

**Date of birth:**

31 May 1970

**Education:**

- 1993. Moscow State Institute of International Relations of the Ministry of Foreign Affairs of Russia.

**Positions held in the last 5 years, including membership in other organizations' management bodies:**

| Organization   | Position   | Dates of appointment/election and resignation/removal |
|--|--|---|
| Public Joint-Stock Company Moscow Exchange MICEX-RTS (Moscow Exchange) | Supervisory Board member   | From 25 June 2013                                     |
| Central Counterparty National Clearing Centre                          | Chairman of the Supervisory Board, member of the Supervisory Board | From 29 May 2008                                      |
| National Foreign Exchange Association                                  | Board Co-chairperson   | 14 October 2003 – 8 April 2015                        |

## Bella Zlatkis

**Date of birth:**

5 July 1948

**Education:**

- 1970. Moscow Finance Institute.
- 1978. All-Union Correspondence Financial Institute, post-graduate course.

Ph.D. (Economics).

**Positions held in the last 5 years, including membership in other organizations' management bodies:**

| Organization   | Position                                  | Dates of appointment/election and resignation/removal |
|--|---|---|
| Sberbank of Russia   | Deputy Chairperson of the Executive Board | From 28 May 2004                                      |
|  | Member of the Executive Board             | From 8 July 2005                                      |
| Public Joint-Stock Company Moscow Exchange MICEX-RTS (Moscow Exchange) | Supervisory Board member                  | From 16 September 2011                                |
| Sberbank of Russia   | Supervisory Board member                  | 30 June 2000 – 29 May 2015, and from 8 June 2018      |
| UJFOR  | Member of the Board of Directors          | 18 June 2012 – 19 November 2014                       |

## Sergey Ivliev

Independent director

**Date of birth:**

16 July 1979

**Education:**

- 2001. Perm State University.
- 2005. Ph.D. (Economics).

**Positions held in the last 5 years, including membership in other organizations' management bodies:**

| Organization  | Position   | Dates of appointment/election and resignation/removal |
|---|--|---|
| Perm State National Research University                       | Head of Laboratory of Cryptoeconomics and Blockchain Systems                       | From 1 December 2016                                  |
| Perm State National Research University                       | Docent, Department of Information Systems and Mathematical Methods in Economics    | From 1 September 2006                                 |
| Professional Risk Managers' International Association (PRMIA) | Regional director  | From 1 December 2016                                  |
| Guild of Financial Analysts and Risk-Managers (GIFA)          | Vice President   | From 1 September 2016                                 |
| LykkeVanuatu Ltd  | Executive Director   | From 12 August 2017                                   |
| CJSC Prognoz  | Deputy General Director for Research, Head of Solutions for Financial Institutions | 11 January 2001 – 12 January 2016                     |

**Sergey Lykov****Date of birth:**

12 December 1952

**Education:**

- 1975. Moscow Finance Institute.
- 1988. All-Union Distance Institute of Finance and Economics, post-graduate course, Ph.D. (Economics).

#### Positions held in the last 5 years, including membership in other organizations' management bodies:

| Organization                                  | Position   | Dates of appointment/election and resignation/removal |
|---|--|---|
| State Development Corporation "VEB.RF"        | Deputy Chairman of the Management Board,<br>Member of the Management Board | From 28 June 2007                                     |
| Central Counterparty National Clearing Centre | Deputy Chairman of the Supervisory Board                                   | From 28 January 2009                                  |
| Moscow Exchange                               | Supervisory Board member   | 20 May 2004 – 27 April 2016                           |
| EXIMBANK OF RUSSIA                            | Member of the Board of Directors   | 8 June 2006 – 9 June 2015                             |
| Bank BelVEB OJSC                              | Supervisory Board member   | 28 March 2008 – 25 August 2016                        |
| Sviaz-Bank                                    | Member of the Board of Directors   | 22 January 2009 – 6 February 2017                     |
| VEB-Leasing JSC                               | Member of the Board of Directors   | 29 June 2015 – 30 June 2016                           |
| VEB Asia Limited                              | Member of the Board of Directors   | 6 December 2013 – 5 August 2015                       |

#### Paul James Ostling Independent director

##### Date of birth:

22 September 1948

**Education:**

- 1969. Fordham University (Mathematics, Philosophy).
- 1973. Fordham University School of Law.
- 1973. Academic degree: JD Cum Laude.
- 1983. Harvard University, advanced management program.

**Positions held in the last 5 years, including membership in other organizations' management bodies:**

| Organization  | Position   | Dates of appointment/election and resignation/removal |
|---|--|---|
| Uralkali, PJSC  | Member of the Board of Directors                                 | From 2011   |
|   | Board member   | From 2001   |
|   | Member of the Executive Committee                                | 2012 – 2013   |
| Business Council for International Understanding<br>(Non-profit organization) | Chairman of the Business Council for International Understanding | 2007 – 2010   |
|   | Vice Chairman of the Board of Directors                          | 2011 – 2013   |
|   | Member of the Board of Directors                                 | From 2007   |
| Boy Scouts of America Transatlantic Council (non-profit organization)         | Member of the Board of Directors                                 | From 2007   |
|   | Member of the Board of Directors                                 | From 2009   |
|   | Chairman of the Board of Directors                               | 2012 – 2015   |
| Phoenix Neftegaz Services, LLC  | Member of the Board of Directors                                 | From 2009   |
|   | Chairman of the Board of Directors                               | 2012 – 2015   |
|   | Member of the Board of Directors                                 | 2015 – 2016   |
|   | Chairman of the Board of Directors                               | From early 2016 to 15 November 2016                   |
| Brunswick Rail Limited  | General Director   | From early 2016 to 15 November 2016                   |
|   | Member of the Board of Directors                                 | 2013 – 2015   |
| Datalogix, Inc  | Member of the Board of Directors                                 | 2013 – 2015   |
| Imagine Entertainment Music   | Board Chairman   | 2006 – 2013   |
| Cool NRG, Pty, Ltd  | Deputy Chairman  | 2007 – 2013   |
| Innolume, GMBH  | Member of the Board of Directors                                 | 2010 – 2014   |
| MTS, OJSC   | Member of the Board of Directors                                 | 2007 – 2013   |

## Anton Ostrovskiy

Independent director

**Date of birth:**

14 February 1971



**Education:**

- 1993. Moscow State Institute of International Relations of the Ministry of Foreign Affairs of Russia.

**Positions held in the last 5 years, including membership in other organizations' management bodies:**

| Organization                                 | Position  | Dates of appointment/election and resignation/removal |
|--|---|---|
| Fund "Institute of Contemporary Development" | Deputy Research Advisor – Director, Head of Research and Project Activities | From 1 November 2018                                  |
| Investment Fund "InSovR-Capital"             | Director  | 20 May 2008 – 31 October 2018                         |
|  | Board member  | From 21 May 2008                                      |
| All-Russian Insurance Association            | Advisor to the President  | 1 September 2013 – 31 December 2016                   |
| Private Pension Fund "Telecom-Soyuz"         | Executive Director, Member of the Board of Directors                        | 26 June 2008 – 15 May 2013                            |

**Andrey Popov**

(independent director from 25 December 2018)

**Date of birth:**

21 January 1973

**Education:**

- 1995. Truman State University (Missouri, USA).
- 1996. Finance Academy under the Government of the Russian Federation.

**Positions held in the last 5 years, including membership in other organizations' management bodies:**

JSC RaiffeisenBank, Russia. Chief Information Officer (CIO), Member of the Management Board from 2013 to 24 December 2018.

**Nadezhda Ushakova****Date of birth:**

6 February 1967

**Education:**

- 1989. State Finance Academy.

**Positions held in the last 5 years, including membership in other organizations' management bodies:**

| Organization                   | Position  | Dates of appointment/election and resignation/removal |
|--------------------------------|---|---|
| VTB Bank                       | Senior Vice President, Head of Depository, VTB Bank         | From 21 September 2009                                |
| VTB Capital (in parallel)      | Team Leader, Department of Fixed Income Market Transactions | 21 September 2009 – 28 February 2017                  |
|                                | Team Leader, Office of the General Director                 | From 1 March 2017                                     |
| JSC VTB Specialized Depository | Chairperson of the Board of Directors                       | From 29 June 2010                                     |

**Ilya Yuzhanov**

Independent director

**Date of birth:**

7 February 1960

**Education:**

- 1982. Leningrad State University.
- 1989. Ph.D. (Economics).
- 2013. Institute of Directors, UK, IoD Chartered Director.

**Positions held in the last 5 years, including membership in other organizations' management bodies:**

| Organization  | Position                           | Dates of appointment/election and resignation/removal |
|---|------------------------------------|---|
| United Wagon Company  | Member of the Board of Directors   | From March 2015                                       |
| Independent Directors Association, Russia   | Supervisory Board member           | From July 2011  |
| ROSNANO   | Member of the Board of Directors   | From June 2015  |
| Consumer Council for the Activities of Russian Railways OJSC and its Subsidiaries, established within the Government Transport Commission of the Russian Federation | Chairman of the Council            | From January 2016                                     |
| Polyus Gold International Limited   | Chairman of the Board of Directors | October 2013 – March 2016                             |
| ALROSA  | Supervisory Board Chairman         | June 2009 – June 2015                                 |
| Otkritie Financial Corporation  | Member of the Board of Directors   | September 2012 – March 2014                           |

—

—

—

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

## Information on the Executive Board Members

### Eddie Astanin

**Date of birth:**

16 December 1961

**Education:**

- 1984. Mozhaisky Military Engineering Institute.
- 1996. Institute for Further Training and Qualification Upgrade in Finance and Banking at the Finance Academy under the Government of the Russian Federation.

1992. Ph.D. in Engineering Sciences.

**Positions held in the last 5 years, including membership in other organizations' management bodies:**

| Organization  | Position                           | Dates of appointment/election and resignation/removal |
|---|------------------------------------|---|
| National Settlement Depository                                    | Chairman of the Management Board   | From 11 November 2010                                 |
| S.W.I.F.T.  | Member of the Board of Directors   | From 11 June 2015                                     |
| Settlement Depository Company (Joint Stock Company)               | Member of the Board of Directors   | From 29 March 2018                                    |
| Stock Company Saint-Petersburg Currency Exchange                  | Member of the Board of Directors   | 31 May 2012 – 28 June 2018                            |
| Petersburg Settlement Center Limited                              | Member of the Board of Directors   | 19 May 2011 – 18 May 2017                             |
| Self-Regulatory Organization "National Finance Association" (NFA) | Board member                       | 20 April 2011 – 13 April 2017                         |
| Closed Joint-Stock Company "Depository Clearing Company"          | Chairman of the Board of Directors | 28 June 2012 – 16 December 2014                       |
| Settlement Depository Company (Joint Stock Company)               | Member of the Board of Directors   | 23 May 2013 – 16 May 2014                             |

## Irina Veremeyenko

**Date of birth:**

24 May 1965

**Education:**

- 1987. Moscow Finance Institute.

**Positions held in the last 5 years, including membership in other organizations' management bodies:**

| Organization  | Position  | Dates of appointment/election and resignation/removal |
|---|---|---|
| National Settlement Depository (NSD) (formerly known as MICEX Settlement House) | Chief Accountant, Director of Accounting and Reporting Department | From 25 September 2000                                |
| Closed Joint-Stock Company "Depository Clearing Company"                        | Member of the Board of Directors                                  | 28 June 2012 – 16 December 2014                       |
| RTS Settlement House  | Member of the Board of Directors                                  | 28 June 2012 – 1 August 2014                          |

## Maria Krasnova

**Date of birth:**

13 February 1970

**Education:**

- 1992. Lomonosov Moscow State University.

**Positions held in the last 5 years, including membership in other organizations' management bodies:**

| Organization   | Position  | Dates of appointment/election and resignation/removal           |
|--|---|---|
| National Settlement Depository                           | Deputy Chairman of the Executive Board  | From 1 July 2013  |
|  | Vice President, Director for Corporate Matters, Risks and Legal Support (in parallel) | 6 April 2012 – 30 June 2013                                     |
|  | Deputy Chairman of the Executive Board  | 21 July 2011 – 5 April 2012                                     |
| Closed Joint-Stock Company "Depository Clearing Company" | President   | 6 April 2012 – 3 April 2013                                     |
| Closed Joint-Stock Company "Depository Clearing Company" | Member of the Board of Directors  | 28 June 2012 – 28 June 2013,<br>26 June 2014 – 16 December 2014 |
| RTS Settlement House                                     | Member of the Board of Directors  | 28 June 2012 – 19 June 2013                                     |

## Andrey Shlyappo

**Date of birth:**

12 September 1968

**Education:**

- 1998. Moscow State Institute of Steel and Alloys (Technological University).

**Positions held in the last 5 years, including membership in other organizations' management bodies:**

| Organization   | Position                                       | Dates of appointment/election and resignation/removal |
|--|--|---|
|  | Deputy Chairman of the Executive Board         | From 1 April 2014                                     |
| National Settlement Depository (NSD)                     | Vice President, Director of Operations         | 1 February 2012 – 31 March 2014                       |
|  | Director of Depository Transactions Department | 11 November 2010 – 31 January 2012                    |
| Closed Joint-Stock Company "Depository Clearing Company" | Member of the Board of Directors               | 28 June 2012 – 26 June 2014                           |

## Sergey Putyatinskiy<sup>1</sup>

**Date of birth:**

15 July 1982

**Education:**

- 2004. Saratov State University named after N.G. Chernyshevsky.

**Positions held in the last 5 years, including membership in other organizations' management bodies:**

| Organization                   | Position                    | Dates of appointment/election and resignation/removal |
|--------------------------------|-----------------------------|---|
| National Settlement Depository | IT Director                 | 24 October 2013 – 27 July 2018                        |
| Bank Otkritie                  | Vice President, IT Director | 4 October 2012 – 1 October 2013                       |

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

<sup>1</sup> Resigned with effect from 27 July 2018.

# SHAREHOLDERS

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

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

The execution of the Shareholders Agreement accompanied by making amendments to NSD's Articles of Association and other internal regulations secured for NSD's customers the right to participate in managing NSD and ensured a balance between the interests of NSD's majority and minority shareholders. The broad representation of securities market participants in NSD's share capital (based on the 'one participant – one share' principle) gives NSD's clients an opportunity to participate in developing NSD's product range and tariffs, i.e., establish control over the price and quality characteristics of NSD's services.

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

Because certain international central securities depositories became shareholders in 2014, NSD is now able to position itself as a Eurasian (regional) international central securities depository. This allows NSD to offer foreign investors CSD services for execution of transactions in securities of Russian or other CIS issuers, and also to offer investors from CIS countries services for execution of transactions in foreign securities through accounts held by international or CIS CSDs with NSD.

The presence of foreign infrastructure institutions among NSD's shareholders demonstrates that Russia's central securities depository is recognized in the global arena and that its corporate governance system is trusted.

## List of NSD's Shareholders

1. **Public Joint-Stock Company Moscow Exchange MICEX-RTS**
2. **Gazprombank (Joint-Stock Company)**
3. **ROSBANK Public Joint-Stock Company**
4. **CentroCredit Joint-Stock Commercial Bank**
5. **VTB Bank (public joint-stock company)**
6. **State Development Corporation «VEB.RF»**
7. **ALOR Plus Corporation**
8. **JSC «Bank Credit Suisse (Moscow)»**
9. **Joint stock company Raiffeisenbank**
10. **Stock company Saint-Petersburg Currency Exchange**
11. **Joint Stock Company UniCredit Bank**
12. **KIT Finance (Joint-Stock Company)**
13. **Commercial Bank «J.P. Morgan Bank International» (Limited Liability Company)**
14. **Limited Liability Company «ATON»**
15. **BrokerCreditService Limited**
16. **«OOO Morgan Stanley Bank»**
17. **Open Joint-Stock Company «ALFA-BANK»**
18. **“Bank “Saint-Petersburg” Public Joint-Stock Company**
19. **Otkritie Broker Joint Stock Company**
20. **Public Joint-Stock Company “Bank Otkritie Financial Corporation”**
21. **Sberbank of Russia**
22. **Joint stock company “Sotsinvestbank”**
23. **INFINITUM Asset Services**
24. **Renaissance Broker Limited**

25. Reestr-RN Limited Liability Company
26. Novyi Registrator JSC
27. Professional Registration Center JSC
28. Joint Stock Company "DRAGa"
29. Joint Stock Company "Independent Registrar Company R.O.S.T."
30. Open Joint Stock Company Investment Company «ZERICH Capital Management»
31. Evrofinance Mosnarbank
32. Clearstream Banking S.A.
33. Euroclear Bank SA/NV
34. Republican Unitary Enterprise "Republican Central Securities Depository" (Republic of Belarus)
35. Joint Stock Company Commercial Bank «Citibank».

## General Meeting of Shareholders

The proceedings of General Meetings of Shareholders are governed by the Rules of Procedure of NSD's General Meeting of Shareholders approved by the General Meeting.

On 31 May 2018, the annual General Meeting of Shareholders approved NSD's Annual Report for 2017 and appointed NSD's external auditor. In addition, the General Meeting took decisions on profit distribution and dividend payment for 2017, elected the new members of the Supervisory Board and Internal Audit Commission, and took decisions on remuneration of the Supervisory Board members.

No extraordinary General Meeting of Shareholders was held in 2018.

## Registrar

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



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

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

The annual General Meeting of Shareholders held on 31 May 2018 passed the following resolutions in relation to dividend payment to NSD's shareholders:

- Pay RUB 2,689,521,000 out of NSD's net profit for 2017 as dividends to the shareholders.
- Determine the dividend amount of RUB 2,277.95 per NSD's registered ordinary share

before dividend income tax under article 284 (sub-paragraph 1, paragraph 3) of the Russian Tax Code.

- Determine that the record date for dividend payment purposes shall be 10 June 2018.
- Pay the dividends within the time limits required by the Russian laws.

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

## REMUNERATION OF NSD'S SUPERVISORY BOARD MEMBERS

In accordance with the Federal Law «On Joint-Stock Companies», the General Meeting of Shareholders may resolve to pay remuneration to Supervisory Board members during their term in office. The amount of such remuneration is to be approved by the General Meeting of Shareholders in accordance with NSD's Supervisory Board Members' Remuneration and Expenses Reimbursement Regulations.

In determining the amount of remuneration payable to Supervisory Board members, the following factors are taken into account:

- independent director status;
- the exercise of functions of Chairperson / Deputy Chairperson of the Supervisory Board;

- Supervisory Board Committee membership;
- the exercise of functions of Supervisory Board Committee Chairperson; and
- attendance at in-person Supervisory Board meetings and meetings of Supervisory Board Committees.

The total remuneration paid in 2018 to the Supervisory Board members amounted to RUB 41,383,682, including RUB 15,383,682 paid to the independent directors.

# REMUNERATION OF NSD'S EXECUTIVE BOARD MEMBERS

In accordance with NSD's Articles of Association, the amount of remuneration is approved by the Supervisory Board.

Remuneration payable to the Executive Board members comprises two components:

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

- Performance-based remuneration. Key performance indicators are set by the Supervisory Board in accordance with the recommendations made by the Nomination and Remuneration Committee of the Supervisory Board. Individual key performance indicators are set for each Executive Board member, and the amount of remuneration payable to that member depends on whether the KPIs are achieved.

## NSD'S SUPERVISORY BOARD COMMITTEES AND OTHER COMMITTEES

### Audit Committee

#### Mission:

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

In 2018, as in the previous year, NSD continued to face such challenges as global geopolitical and financial uncertainty; evolving financial policy and regulation; and heightening concerns around risk management and cyber security. Throughout the reporting year, the Audit Committee and NSD's business units were actively involved in addressing these challenges. Despite the continuing volatility caused by the underlying challenges, NSD continued to display stability in updating its processes and systems to proactively address them.

#### Members (as of 31 December 2018):

|   |                    |   |
|---|--------------------|---|
| 1 | Paul James Ostling | Chairperson of the Committee  |
| 2 | Anton Ostrovskiy   | Deputy Research Advisor – Director, Head of Research and Project Activities of the Fund "Institute of Contemporary Development" |
| 3 | Andrey Popov       | Supervisory Board member, NSD   |
| 4 | Nadezhda Ushakova  | Senior Vice President, Head of Depository, VTB Bank   |

#### Highlights of the year:

In 2018, the Audit Committee held 12 meetings and dealt with 54 issues.

In 2018, the Committee updated the business continuity and disaster recovery policy and strategy, and improved the methodology of cyber security assessment at NSD. The Audit

Committee continued working in accordance with its mandate in the light of the NSD's functions (with a focus on financial statement assurance, risk management, internal controls, internal audit, fraud prevention and compliance with applicable laws and regulations). The most important outcome of the Committee's work was implementation of IFRS 9, including semi-annual reporting requirements.

At its meetings, the Audit Committee regularly received reports and monitored the execution of the work plans of the Internal Audit, Internal Control, and Risk Management Departments, and those of the company's external auditors. In particular, the Committee required more in-person ongoing reporting from the external auditors.

Given that financial stability, business continuity, and proper risk management are the key priorities of NSD as Russia's financial market infrastructure, in 2019, the Audit Committee will spend even more time to take proactive measures around containing IT-related risks, as well as addressing such issues as cyber security, operational reliability, and financial risk management, including stress testing for the purpose of proper control over capital adequacy.

## Budget Committee

### Mission:

The Budget Committee's role is to improve the efficiency of NSD's Supervisory Board by ensuring proper control over the way funds are received and spent at NSD. The Committee thoroughly prepares materials to be considered at NSD's Supervisory Board meetings on matters relating to financial planning and financial resources management at NSD.

### Members (as of 31 December 2018):

|   |                          |   |
|---|--------------------------|---|
| 1 | <b>Maxim Lapin</b>       | Chief Financial Officer (CFO), Moscow Exchange,<br><b>Chairman of the Committee</b>   |
| 2 | <b>Mikhail Bratanov</b>  | Regional Head in Russia and CIS, Société Générale<br>Securities Services, Director of Securities Services<br>Department, PJSC ROSBANK |
| 3 | <b>Nadezhda Ushakova</b> | Senior Vice President, Head of Depository,<br>VTB Bank  |

### Highlights of the year:

In 2018, the Committee held 7 meetings.

The priorities for the Committee were matters relating to the budgeting of NSD's operations and the company's pricing policy. The Committee has contributed to fine-tuning the cost

control process, analyzing the company's revenue model and prospective projects, and the economic capital estimation.

In 2019, the Committee will focus on the quarterly monitoring of CTOI and fees, analysis of revenue streams from business lines, and analysis of the 'Registrar of Financial Transactions' and 'Central Operator of Individual Pension Capital' projects

## Nomination and Remuneration Committee

### Mission:

In-depth analysis of matters relating to the recruitment, assessment and remuneration of NSD's senior managers, including Supervisory Board members, the Chairman of the Executive Board, Executive Board members, and other key employees and members of the Internal Audit Commission, and preparation of materials to be considered at Supervisory Board meetings.

### Members (as of 31 December 2018):

|   |                            |  |
|---|----------------------------|--|
| 1 | <b>Ilya Yuzhanov</b>       | <b>Chairman of the Committee</b> , independent director          |
| 2 | <b>Alexander Afanasiev</b> | Chairman of the Executive Board, Moscow Exchange                 |
| 3 | <b>Oleg Vyugin</b>         | Chairman of the Supervisory Board, Moscow Exchange               |
| 4 | <b>Bella Zlatkis</b>       | Deputy Chairperson of the Executive Board, Sberbank<br>of Russia |

### Highlights of the year:

In 2018, the Committee held 7 meetings at which the Committee members made recommendations concerning the composition of NSD's Executive Board and remuneration payable to the Executive Board members, as well as recommendations as to:

- new nominees to the Supervisory Board to be elected at the annual General Meeting in 2018;
- NSD's Key Performance Indicators (KPI) for 2018 and assessment of the achievement of NSD's KPIs for 2017;
- remuneration of the Chairman of the Executive Board and Executive Board members for 2017, and remuneration of the heads of the business units in charge of internal control and

risk management;

- updating NSD's employee compensation plan in accordance with Bank of Russia's Instruction No. 154-I dated 17 June 2014.

The Committee Chairman coordinated efforts to assess the state of corporate governance at NSD based on the results of 2018.

## Technological Policy and Development Committee

### Mission:

Analysis of development of NSD's IT systems to ensure they meet the needs of financial markets participants, and making recommendations to the Supervisory Board and the Executive Board on matters relating to the technological policy concerning the creation, maintenance, operation, and development of such IT systems.

### Members (as of 31 December 2018):

|   |                              |   |
|---|------------------------------|---|
| 1 | <b>Anatoly Karachinsky</b>   | <b>President, IBS Group, Chairman of the Committee</b>  |
| 2 | <b>Andrey Golikov</b>        | Deputy Chairman of the Supervisory Board, Moscow Exchange   |
| 3 | <b>Sergey Ivliev</b>         | Head of Laboratory of Cryptoeconomics and Blockchain Systems, Perm State National Research University |
| 4 | <b>Alexander Izosimov</b>    | Member of the Supervisory Board, Moscow Exchange  |
| 5 | <b>Vladimir Kurlyandchik</b> | Director for Development, ARQA Technologies   |
| 6 | <b>Kirill Menshov</b>        | Senior Vice President for IT, PJSC "Rostelecom"   |
| 7 | <b>Yuri Yartsev</b>          | Deputy Head of the Project Office Department, Moscow Office of BCS Prime Brokerage Limited            |

### Highlights of the year:

In 2018, the Committee held two meetings. The Committee's key priorities included updating a number of NSD's internal regulations that governed IT adoption at the company, including their harmonization with the Moscow Exchange Group's policies. In particular, the Committee updated NSD's Technological Policy in the Field of Basic Information Technology (IT) and Electronic Communication Rules.

In 2019, the Committee will continue assessing IT solutions for their potential roll-out at the company, regularly analyzing the state of NSD's IT infrastructure and software applications, and formulating relevant recommendations for their improvement and high-level regulation of the company's IT processes.

## Strategy Committee

In May 2018, NSD's Supervisory Board resolved to establish a new Supervisory Board Committee – the Strategy Committee.

### Mission:

Making recommendations to NSD's Supervisory Board as to the worst-case, baseline, and best-case scenarios and the strategy of NSD's development for a new period.

Monitoring the progress in the implementation of NSD's current strategy, assessing the need to adjust NSD's current strategy, and making relevant proposals to the Supervisory Board.

### Members (as of 31 December 2018):

|   |                            |   |
|---|----------------------------|---|
| 1 | <b>Paul Anne F. Bodart</b> | <b>Chairperson of the Committee</b>   |
| 2 | <b>Mikhail Bratanov</b>    | Regional Head in Russia and CIS, Société Générale Securities Services, Director of Securities Services Department, PJSC ROSBANK |
| 3 | <b>Oleg Vyugin</b>         | Chairman of the Supervisory Board, Moscow Exchange  |
| 4 | <b>Yuri Denisov</b>        | Chairman of the Supervisory Board, CCP NCC  |
| 5 | <b>Anton Ostrovskiy</b>    | Deputy Research Advisor – Director, Head of Research and Project Activities of the Fund "Institute of Contemporary Development" |
| 6 | <b>Andrey Popov</b>        | Supervisory Board member, NSD   |

### Highlights of the year:

In 2018, the Strategy Committee held four meetings. In accordance with its mandate, the Committee discussed the following matters:

- Outcomes of NSD's current Development Strategy 2020;
- Prospective initiatives and projects. Making recommendations to NSD's Supervisory Board to enable it making informed decisions;
- Updating NSD's Development Strategy for a new period;
- Cooperation with the Strategy Planning Commission of Moscow Exchange's Supervisory Board with a view to align the NSD strategy with the strategy of the Moscow Exchange Group.

In 2019, the Committee will continue its work. Having analyzed the environment in which NSD operates, as well as the company's strengths and weaknesses and its mission and objectives, the Committee has identified a number of prospective initiatives. Currently, the Committee

is analyzing the potential financial impact of those initiatives on NSD's current plan of strategic development, resources required to support the initiatives, NSD's ability to meet the requirements to the development and implementation of the initiatives, and related risks.

In parallel, the Committee will continue analyzing other initiatives that are still at their initial stages.

## Customer Committees of the Supervisory Board

### National Settlement Depository Customer Committee (Central Securities Depository Customer Committee)

#### Mission:

The Committee is responsible to review and approve internal regulations (amendments thereto) of NSD as the central securities depository, including regulations that require approval by the Bank of Russia.

#### Chairperson:

Alexey Fedotov, Deputy Head of Depository, Russian Agricultural Bank<sup>1</sup>

#### Highlights of the year:

In 2018, the Committee held three meetings, at which the Committee members approved NSD's amended and restated Terms and Conditions of Depository Operations, as well as NSD's amended and restated Electronic Communication Rules.

### Customer Committee for Quality Control and Risk Management

#### Mission:

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

- NSD's customer policy, in particular a client onboarding process and servicing principles applicable to various client categories;
- NSD's marketing policy in promoting its services;

- improving customer services and ensuring control over their quality, including in the field of software, hardware and technological support of NSD's activities;
- improving products and services offered by NSD;
- reducing NSD's operational risks in delivering services;
- informing NSD's customers about new products and services, and supporting the promotion of such services in the financial services market; and
- approving internal regulations relating to NSD's clearing operations.

#### Chairperson:

Natalia Sidorova, Head of Global Securities Services, Transaction Banking Services Department, JSC UniCredit Bank.

#### Highlights of the year:

In 2018, the Committee held two meetings, at which the Committee members discussed NSD's amended and restated Risk and Capital Management Strategy and the estimated level of NSD's economic capital for 2018. □The Committee also discussed the level of customer satisfaction of NSD's services and identified the priority areas of focus for improvement of the quality of client services, including client support and software improvement. In addition, the Committee addressed proposals aimed to enhance the quality of IT services.

### Customer Committee for Settlement and Depository Services and Tariffs

#### Mission:

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

- liaising with financial market participants for the purpose of studying customers' needs and analysing new market trends; and
- making recommendations to NSD's Supervisory Board and executive bodies on the following matters
  - development and standardization of tariffs;

<sup>1</sup> Before 31 July 2018, the position was held by Svetlana Kamasheva, Managing Director, Head of New Products Department, Depository, VTB Bank (PJSC).

- marketing policy aimed at offering competitive services; and
- other matters directly relating to NSD's Development Strategy.

**Chairperson:**

Evgenia Klimova, Head of Custody Services Department, JSC Raiffeisenbank<sup>1</sup>.

**Highlights of the year:**

In 2018, the Committee held three meetings, at which the Committee members discussed software improvements, the outcome of the launch of individual accounts, plans to develop the Centralized UIT Units Record Keeping System (CUU RKS), forex settlement with clearing by NSD, time limits for payment of NSD's invoices, and corporate action-related matters.

## Customer Committee for Registrar and Depository Relations

**Mission:**

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

- making recommendations to improve NSD's existing relations with registrars that maintain registers of registered securities holders, and with specialized depositories that maintain registers of UIT unit holders;
- making proposals to change NSD's communication technologies being used to interact with registrars, including electronic data interchange technologies;
- making proposals to design new technologies to improve the quality of NSD's relations with registrars and specialized depositories; and
- addressing any other matters relating to the Committee's tasks and objectives.

**Chairperson:**

Maksim Murashov, General Director, JSC "DRAGA".

**Highlights of the year:**

In 2018, the Committee held one meeting, at which the Committee members addressed the following matters: further development of corporate actions for Russian securities, improvement of the E-voting service at general meetings of shareholders.

## Committees of the Executive Board

### Risk Management Committee

**Mission:**

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

**Chairperson:**

Maria Krasnova, Deputy Chairman of the Executive Board, Executive Board member, NSD.

**Highlights of the year:**

In 2018, the Committee held 10 meetings, at which the Committee members addressed a number of matters relating to operational reliability of NSD's services, operation and development of the risk management system, business continuity, and information security. In particular, the Committee focused on the following matters:

- steps aimed at enhancing the level of NSD's cyber security;
- information security testing;
- progress in the implementation of the business continuity and disaster recovery plans and plans for building fault-tolerant infrastructure;
- acceptance of risks in NSD's ongoing operations; and
- outcome of investigations into the causes and circumstances of material incidents in NSD's operations, and steps taken to prevent their re-occurrence.

The outcomes of Committee meetings are regularly reported to the Executive Board.

### Risk Management Committee for Payment System

**Mission:**

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

<sup>1</sup> From 19 December 2018, the position is held by Ksenia Vlasova, Head of Operations, Business Support Department, Aton LLC.

**Chairperson:**

Anna Volodina, Director of Risk Management Department, NSD.

**Highlights of the year:**

In 2018, the Committee held two meetings. Apart from organizational matters, the Committee members addressed such matters as whether the NSD Payment System, which is a systemically important payment system, meets the Bank of Russia's recommendations based on the Principles for Financial Market Infrastructures, and implementation of the Plan of Changes to the NSD Payment System, as prepared in accordance with the Bank of Russia's recommendations based on the Principles for Financial Market Infrastructures.

**Tender Committee****Mission:**

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

**Chairperson:**

Georgy Uryutov, Director of General Economic Department, NSD.

**Highlights of the year:**

In 2018, the Committee held 31 meetings. Most of the matters addressed by the Committee were relating to the outsourcing of the design and maintenance of various IT systems and software solutions, and repair and maintenance of the office building occupied by NSD at 12 Spartakovskaya Street in Moscow. In particular, counterparties were selected to conduct market researches and to acquire licences, computer hardware, and other equipment.

**Product and Project Committee****Mission:**

Mission: The Committee was set up to manage project activities at NSD, including the development of new products and services. The Committee's key role is to assist the Executive Board in deciding on the project and product management of the company and to ensure that the project implementation complies with management policies and regulations.

**Chairperson:**

Irina Veremeyenko, Chief Accountant, Director of Accounting and Reporting Department, Executive Board member.

**Highlights of the year:**

In 2018, the Committee held 20 meetings, at which the Committee members, among other things, discussed the following projects: transit service for financial notifications; integration with the Prospective Payment System; improvement of electronic communications with clients; modernization of the process of securities exchange/conversion; and Registrar of Financial Transactions.

**Repository Services User Committee****Mission:**

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

**Chairperson:**

Marina Presnyakova, Executive Director, COO, Commercial Bank «J.P. Morgan Bank International» (Limited Liability Company).

**Highlights of the year:**

In 2018, the Committee held one meeting, at which the Committee members discussed the Bank of Russia's plans to develop FinTech in 2018–2019 as part of the Marketplace project, as well as NSD's plans to ensure the Trade Repository's growth in 2019, including the 'Registrar of Financial Transactions' project and the 'Mark-to-Market' service.

**Committee on the Development of Corporate Actions and Corporate Information Center****Mission:**

The Committee's primary role is to consider proposals and make recommendations to NSD's Executive Board for the development of the Corporate Actions and Corporate Information Center.

**Chairperson:**

Natalia Shtalenkova, Head of Product Development Division, Depository Services Department, Commercial Bank "J.P. Morgan Bank International" (Limited Liability Company).

**Highlights of the year:**

In 2018, the Committee did not meet.

## Committees of the Chairman of the Executive Board

### Update Committee

#### Mission:

The Committee's key role is to mitigate the negative impact that software updates have on the quality of services provided to NSD's clients. The Committee's objectives are analysis of whether control measures used or planned in connection with software updates are adequate; and development of measures to mitigate the risk of the negative impact that the software updates have on the quality of services.

#### Chairperson:

Andrey Shlyappo, Deputy Chairman of the Executive Board, Executive Board member.

#### Highlights of the year:

In 2018, the Committee held 61 meetings to discuss matters relating to the installation of software releases, as well as to the assessment of non-project-related requests.

### Architectural Committee

#### Mission:

The Architectural Committee's key responsibilities are as follows:

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

#### Chairperson:

Alexander Chekanov, Chief Architect.

#### Highlights of the year:

In 2018, the Committee held 8 meetings. Among the matters addressed by the Committee were the following: selection of infrastructure for storage and batch processing of Big Data; stack of monitoring systems; single Vault of Secrets; business landscape of systems for business lines (using the example of Information Services); selection of a protection system to protect against targeted attacks and malicious activity; selection of a Threat Intelligence solution; selection of a Content Management System (CSM) for nsd.ru; boundaries and risks of robotization at NSD;

selection of a dedicated system to manage the process of NSD's system update installations; development of DevOps at NSD; and EDI and integration development.

### Innovations Committee

#### Mission:

The Innovations Committee's key responsibilities are as follows:

- development of innovative ideas to create new products and services and to improve the competitiveness of NSD's existing products and services; and
- development of NSD's innovative capacity.

#### Chairperson:

Artem Duvanov, Director for Innovations, NSD.

#### Highlights of the year:

In 2018, the Committee held one meeting, at which the Committee members addressed NSD's innovations and discussed various matters relating to the CSD Working Group on DLT, its status and plans.



# 02

## RISK MANAGEMENT

NSD's risk management system aims to promote sustainable development of the Russian financial market in accordance with international standards and is focused on effective risk management for both the company and participants of the financial market infrastructure.

The main purpose of risk management at NSD is to ensure operational reliability and steady development of the company's key areas of business and to guarantee that the company meets its obligations to its shareholders, clients, regulator, and other stakeholders. Risk management processes are based on the Integrated Enterprise Risk Management Framework (COSO ERM) and constitute an integral part of NSD's operations.

Effective risk management contributes both to optimal decisionmaking in the context of uncertainty and related risks, and the use of available opportunities.

Detailed information on the risk management system, its organizational structure, and key principles of risk management is available on NSD's web site in the Risk Management section.

# RISK PROFILE

The risk management system is designed to manage all types of financial and nonfinancial risks in NSD's business, namely: credit risk, market risk, liquidity risk, operational risk, legal risk, regulatory risk, strategic risk, reputational risk, business risk, and systemic risk.

The risk management process involves measures aimed at identifying, assessing, responding to, monitoring, and controlling NSD's risks.

## THE KEY RISK FACTORS ASSOCIATED WITH NSD'S OPERATIONS ARE DESCRIBED BELOW

| RISK                    | RISK FACTORS / SOURCES   |
|-------------------------|--|
| <b>CREDIT RISK</b>      | <ul style="list-style-type: none"> <li>• Counterparties' default on their obligations in transactions that bear credit risk</li> </ul>   |
| <b>MARKET RISK</b>      | <ul style="list-style-type: none"> <li>• Changes in exchange rates</li> <li>• Changes in the market value of securities in NSD's portfolio</li> <li>• Changes in interest rates and yields</li> </ul>                                |
| <b>LIQUIDITY RISK</b>   | <ul style="list-style-type: none"> <li>• Potential maturity mismatch between financial assets and financial liabilities</li> <li>• Need for NSD to meet its financial liabilities immediately and at the same time</li> </ul>        |
| <b>OPERATIONAL RISK</b> | <ul style="list-style-type: none"> <li>• Ineffectiveness of internal business processes</li> <li>• Human errors</li> <li>• Malfunctioning of IT systems</li> <li>• Cybercrime</li> <li>• Fraud</li> <li>• External events</li> </ul> |
| <b>LEGAL RISK</b>       | <ul style="list-style-type: none"> <li>• Failure to perform contracts and agreements</li> <li>• Flaws in the legal system</li> <li>• Legal errors arising in the course of operations</li> </ul>                                     |

| RISK                     | RISK FACTORS / SOURCES  |
|--------------------------|---|
| <b>REGULATORY RISK</b>   | <ul style="list-style-type: none"> <li>● Failure to comply with the requirements of laws, internal regulations, and industry standards applicable to NSD's operations</li> </ul>  |
| <b>REPUTATIONAL RISK</b> | <ul style="list-style-type: none"> <li>● Negative perception of the company's financial solvency, quality of services, and operational reliability by clients and other stakeholders</li> </ul>   |
| <b>STRATEGIC RISK</b>    | <ul style="list-style-type: none"> <li>● Mistakes in decision-making regarding the company's development strategy</li> <li>● Shortcomings in strategy implementation</li> </ul>   |
| <b>BUSINESS RISK</b>     | <ul style="list-style-type: none"> <li>● Unforeseen costs arising in the course of providing services</li> <li>● Flaws in management decisions taken in connection with the design and promotion of services</li> <li>● External environment factors affecting company's income and expenses</li> </ul> |
| <b>SYSTEMIC RISK</b>     | <ul style="list-style-type: none"> <li>● Failure by one or more than one settlement participant to meet his liabilities, which could adversely affect the capability of most or all settlement system participants to meet their respective liabilities</li> </ul>                                      |

The key tools designed to manage risks include:

- Collection and analysis of information on risk events.
- Identification, assessment, and reduction of risks in NSD's current business processes, projects, and products.
- Setting limits and other restrictions with respect to the risks accepted.
- Managing the assets and liabilities portfolio for the purpose of its optimization in terms of maturity and structure.
- Setting aside reserves to cover potential losses.
- Monitoring of NSD's risk level and the impact of changes in the external environment on the company's risk profile.

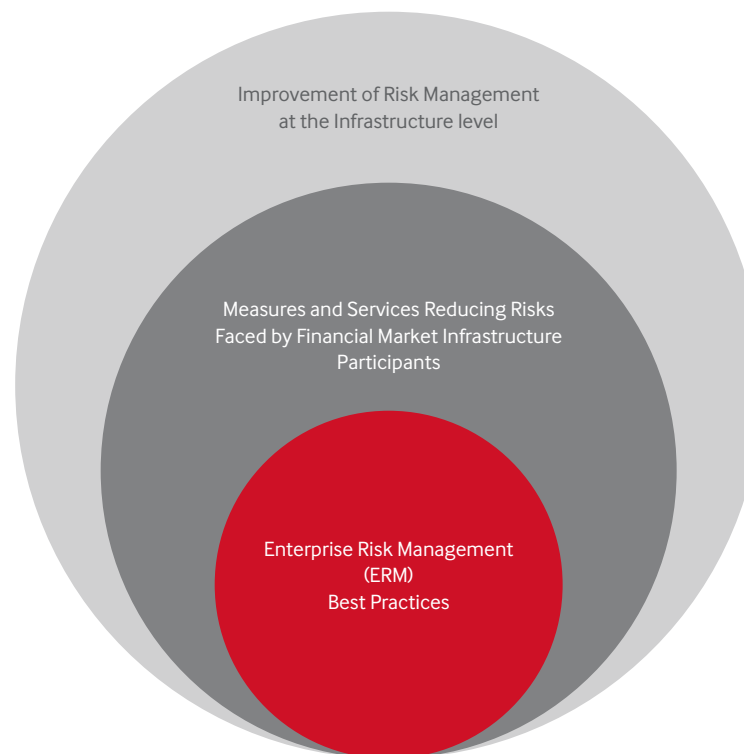
In addition, to ensure the company's financial stability, various processes have been implemented to plan and maintain NSD's capital at the level adequate to cover risks pertaining to the company's operations, including in stress conditions. Compliance with the capital requirements is monitored on a daily basis.

# KEY MILESTONES IN RISK MANAGEMENT IN 2018

In 2018, NSD continued its efforts to improve its risk management tools and practices. The Risk Management System Development Strategy for the Period until 2020 defines the following three key areas of focus:

The key activities completed in 2018 include the following:

- Steps taken to ensure operational reliability and failure-free operation of NSD's processes.
- Implementation of the program designed to assist the company's staff and senior management in developing risk expertise and competencies in accordance with the ERM standards.
- Development of a risk appetite concept and parameters and their approval by the company's management.
- Using approaches to asset quality assessment under IFRS 9.
- Disclosure of information on risk and capital management to a wide range of stakeholders.



## PLANS FOR 2019

Risk management, along with other support functions, is intended to create an environment that would enable NSD to pursue its strategic goals and objectives. Accordingly, the following priority areas of focus have been identified to improve risk management practices:

- Improvement of risk analysis skills and competencies possessed by risk owners, and improvement of analysis quality and risk response measures.
- Raising awareness of risk management practices, and improvement of risk culture.
- Risk assessment of NSD's strategic projects and initiatives.
- Further improvement of Internal Capital Adequacy Assessment Processes and risk stress-testing procedures.

# 03

## BUSINESS CONTINUITY

To ensure its business continuity, NSD has in place and continuously improves the business continuity management system based on the recognized standards and best global practices.

The business continuity management system covers the entirety NSD's key areas of business and is focused on:

- Ensuring safety of company employees and NSD's visitors;
- Ensuring NSD's ability to meet its obligations to clients and partners in the event of disruption of the company's normal operations;
- Prevention of potential disruption of the company's normal operations;
- Mitigation of financial and non-financial consequences of emergencies;
- Restoration of the normal operations following an emergency; and
- Maintaining the level of management at NSD, which allows for making reasonable and optimal management decisions and implementing them in a timely fashion and in full.

The work aimed at ensuring the reliability of critical processes is systematic and consistent. Business continuity management is supported by NSD's senior executives, with necessary resources being allocated to ensure the proper level of continuity of business processes.

NSD has in place adequate backup infrastructure (the backup site and backup data center)

that meets all of the requirements applicable to such facilities.

In addition, NSD has in place Business Continuity and Disaster Recovery Plans that are tested, reviewed, and updated on a continuous basis.

## FULL-SCOPE BUSINESS CONTINUITY EXERCISES

In 2018, multiple tests were conducted, which covered various areas of NSD's business, including tests involving clients, the regulator, municipal service agencies, and service providers.

In addition to testing disaster recovery of IT systems and utilities, NSD, as part of its business continuity efforts, conducts cross-functional emergency situation exercises (including those that last two days), which involve relocation of the company's critical business functions to the backup site in accordance with the Business Continuity and Disaster Recovery Plans.

Specific attention is paid to managing communications with stakeholders and to disclosure of information regarding emergencies.

In line with best practices, representatives of stakeholders are invited to take part in exercises

as observers.

The positive outcomes of the exercises and tests prove the high level of NSD's preparedness to ensure the continuity of its services for clients in an emergency.

It should be specifically said that NSD, in its business continuity efforts, is client-oriented. In 2018, a Business Continuity and Disaster Recovery Plan for Corporate Actions Conducted by NSD's Clients was prepared and tested together with clients. Special work areas were allocated at NSD's offices for clients to enable them to conduct a corporate action when the client's offices could not be used for that purpose.

# 04

## CORPORATE SOCIAL RESPONSIBILITY

NSD is committed to the principles of a socially responsible business through collaboration with field-specific funds, the holding of regular charity events, and the involvement of company employees in these activities.

# PROMOTING FINANCIAL LITERACY AMONG THE POPULATION

NSD's contribution of RUB 320,000 in 2018 allowed providing a salary to a financial literacy teacher in the "Bolshaya Peremena" (Big Change) charity foundation that helps orphans adapt to the modern life while they stay in a children's home and after they leave it. Orphaned children are the first to fall victim to fraudsters who hunt them down to deprive them of the property and money received from the state authorities. NSD helps protect children and provide them with the basic knowledge of how to deal with money.

In 2018, NSD became a partner of the Days of Financial Literacy all-Russian program. NSD's contribution of RUB 650,000 helped organize demo classes, training webinars for high school and university students, and hold the Financier's Day. The class attendees were introduced into the basics of rational use of financial resources and competent consumer behavior regarding retail financial services. Quiz game winners from among high school students were invited to participate in the Financier's Day activities.

## ASSISTANCE TO CHILDREN

As part of NSD's collaboration with Dmitry Malikov's charitable foundation "Pronikaya v Serdtse" (Permeating into Heart), as well as "Strana Chudes" (Wonderland) and "BELA. Deti-babochki" (BELA. Butterfly children) charitable foundations in 2018, more than RUB 1.2M were allocated for purchasing medicines, bandages and dressings, hi-tech hearing aid and paying for children's treatment.

In 2018, NSD continued providing financial assistance to the "Deti Nashi" (Our Children) charitable fund. By allocating RUB 300,000, NSD helped it organize and hold a sports, health improvement, and development program named "Kanikuly so Smyslom" (Meaningful Holidays) for orphaned children from the Shatalovo children's home for orphans and children deprived of parental care and the Safonovo children's home and school. The allocated amount allowed providing room and board to 35 orphans, 7 counselors, and 3 coordinators during the summer session that lasted from 21 May through 31 August 2018. NSD provided aid to the "Sheredar" charity foundation and sponsored 2 rehabilitation programs for 8 children with cancer (RUB 586,000).

In 2018, NSD continued funding the "Danilovtsy" volunteer movement (for the amount of RUB 300,000), whose participants arranged events for the child patients of Dmitry Rogachev

National Research Center of Pediatric Hematology, Oncology and Immunology, Burdenko Neurosurgery Institute, and Russian Children's Clinical Hospital.

NSD allocated RUB 235,000 to the Elizabeth's children's home to cover a six-month wage rate of a teacher of the youngest age correction group. NSD transferred RUB 93,000 to the "Sozidanie" (Creation) charity foundation that aids hearing impaired children. NSD also transferred RUB 65,000 to the Udelloe center for extracurricular activities that is home to children deprived of parental care. The amount was spent to purchase Maxiclastica and Fanclastic development construction sets for children as well as sound equipment for its vocal studio.

As part of corporate patronage, NSD provided aid to Peter Shumskikh, son of Alexey Shumskikh, an NSD's employee who died tragically along with his wife, Ekaterina, in 2004. An amount of RUB 150,000 was transferred to buy school and sports supplies.



# ASSISTANCE TO VETERANS AND DISABLED PEOPLE

In 2018, NSD provided financial assistance to the Duet Wheelchair Athletic Dance Club for the amount of RUB 80,000. It allowed the club members to participate in Russia's Wheelchair Athletic Dance Championship.

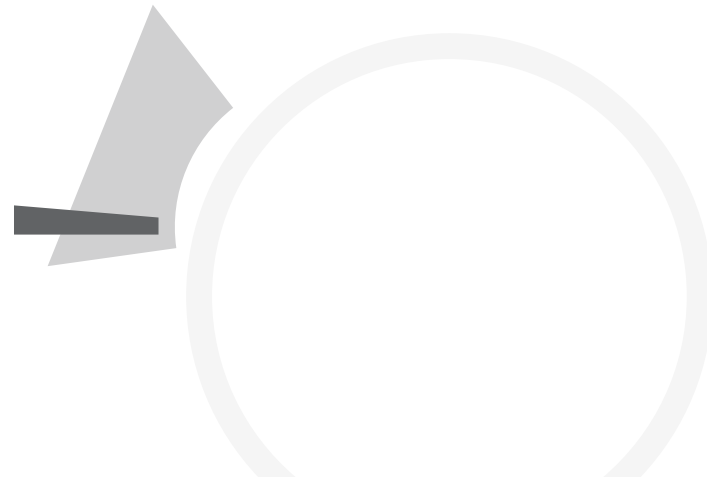
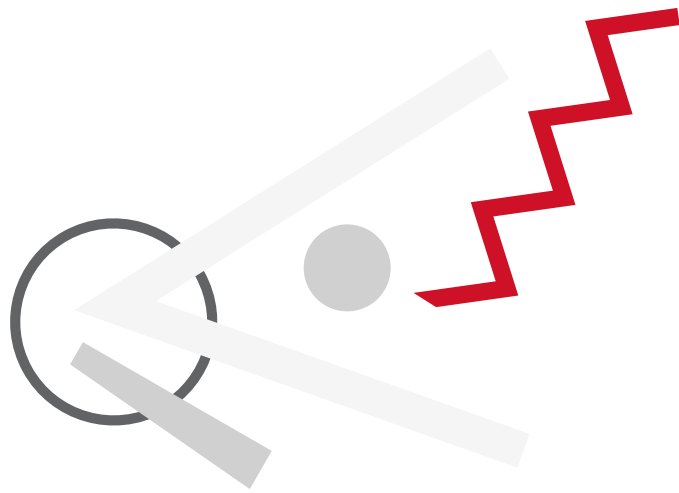
## CORPORATE VOLUNTEERING

NSD's employees who can try hand at volunteering or make a donation are engaged in charity events. Announcements of socially significant events are sent to employees in a daily morning Company Newsletter, while stories and photo reports of the charity events held are posted on the NSD portal's Corporate Charity page. Here, NSD's employees can also apply for participation in a charity event, make a donation, or post an announcement of an alternative charity project. In 2018, the company's office hosted such events as Donor's Day

(69 employees donated blood) and charity fairs. The events were held with the assistance of the Blood Supply Service and the "Podari Zhizn" (Gift of Life) charitable fund. NSD also arranged campaigns to raise funds for the medical treatment of children with cancer. As a result, NSD's employees donated more than RUB 62,500. The amount was handed over to those in need through the "Podari Zhizn" (Gift of Life) charity.

05

# HUMAN CAPITAL



## HR MANAGEMENT

The company's HR policy is aimed at ensuring employee loyalty and the highest professional and management level of NSD's employees and executives.

As of 31 December 2018, NSD's staff<sup>1</sup> amounted to 498 employees.

The average age of NSD's employees is 41 years. 93% of our employees have a degree from higher professional education establishments. The turnover rate in 2018 was 9.31% of the average headcount.

In 2018, the number of male vs. female employees was 43% and 57%, respectively, while the ratio of male to female executives<sup>2</sup> in the company was 48% to 52%. These figures indicate gender equality and equal career opportunities.

The current employee incentive and remuneration system in place at NSD is aimed to promote greater productivity and focus on results. NSD regularly conducts reviews of salaries in competitor companies to inform the development of NSD's compensation policy.

## SOCIAL SECURITY AND CORPORATE WELLNESS

NSD's social policy is aimed to ensure the social security, continuous improvement and expansion of the staff social support programs. The employee benefits package is based on private health insurance provided to all employees, international health insurance, accident insurance, and material assistance provided due to a variety of events in an employee's life. The private health insurance programs include medical assistance in hospitals located both nearby the office and in the vicinity of an employee's home address.

NSD strives to provide its employees with comfortable and secure working conditions. The company's office has recreation areas, workout areas, and areas for employees' socializing.

A large number of NSD's employees have joined corporate discount programs offered by our partner companies, and enjoyed bargain offers for purchasing goods and services in a variety of categories, such as a dinner at a restaurant, discounts on fitness and sports, training courses, and even discounts on house-buying.

At NSD, we pay special attention to employee health care. In addition to the traditional 'vitamin days' and flu vaccination, in 2018, NSD held in-demand preventive health examinations for early detection and prevention of a number of diseases.

<sup>1</sup> Excluding part-timers and employees on a parental leave.

<sup>2</sup> Executive positions: head of a unit, head of a division, head of a department, Executive Board members.

# EMPLOYEE ENGAGEMENT AS A KEY TO SUCCESSFUL FUTURE PERFORMANCE

In 2018, NSD conducted an employee engagement index survey. It showed that the NSD's employee engagement level corresponded to that of the world's most successful companies and, moreover, outdid it by a number of indicators. This proves that NSD takes care of its employees' internal motivation and encourages them to succeed.

According to NSD's employees, the company has a tight-knit team of experts, appreciates a creative approach to one's work, and introduces innovations that enable continuous development of the company. Ambitious challenges and involvement in large projects help NSD build an attractive image as an employer.

The overall employee engagement level at NSD remains as high as before and amounts to 73%, which is 3% higher than in other companies in Russia's financial sector.

# BUILDING EXECUTIVE LEADERSHIP CAPACITY

NSD seeks to appropriately meet the global financial challenges of today. Therefore, continuous development of NSD's executive staff is deemed an integral part of our corporate life.

In 2018, mini-MBA training for NSD's executives was launched successfully in cooperation with a leading Russian business school, with 30 top and middle-level managers participating in the program.

There is a program for employees from among the company's talent pool, which aims to develop their managerial skills based on the current trends. In addition, NSD regularly offers modular programs in the field of project management and personal effectiveness.

# MAINTAINING THE COMPANY'S INNOVATIVE ENVIRONMENT

Innovative technology in the modern world is developing at a tremendous rate, and more and more companies do their best to follow the trend to increase their own efficiency. One of the challenges faced by NSD is to build a corporate culture driven by innovative technology.

One of the key priorities of in-house training at NSD is holding of face-to-face and online training courses on the company's strategy and digital transformation.

# DEVELOPING NSD'S HR BRAND – RECRUITING BEST SPECIALISTS

A company's HR brand is its attractive image as an employer as viewed by job applicants. It is a unique individual image that characterizes each company. In 2018, NSD implemented a number of projects for promoting its image of an attractive employer.

One of the key objectives for developing our HR brand is to increase NSD's recognition among IT experts. This involved the following activities:

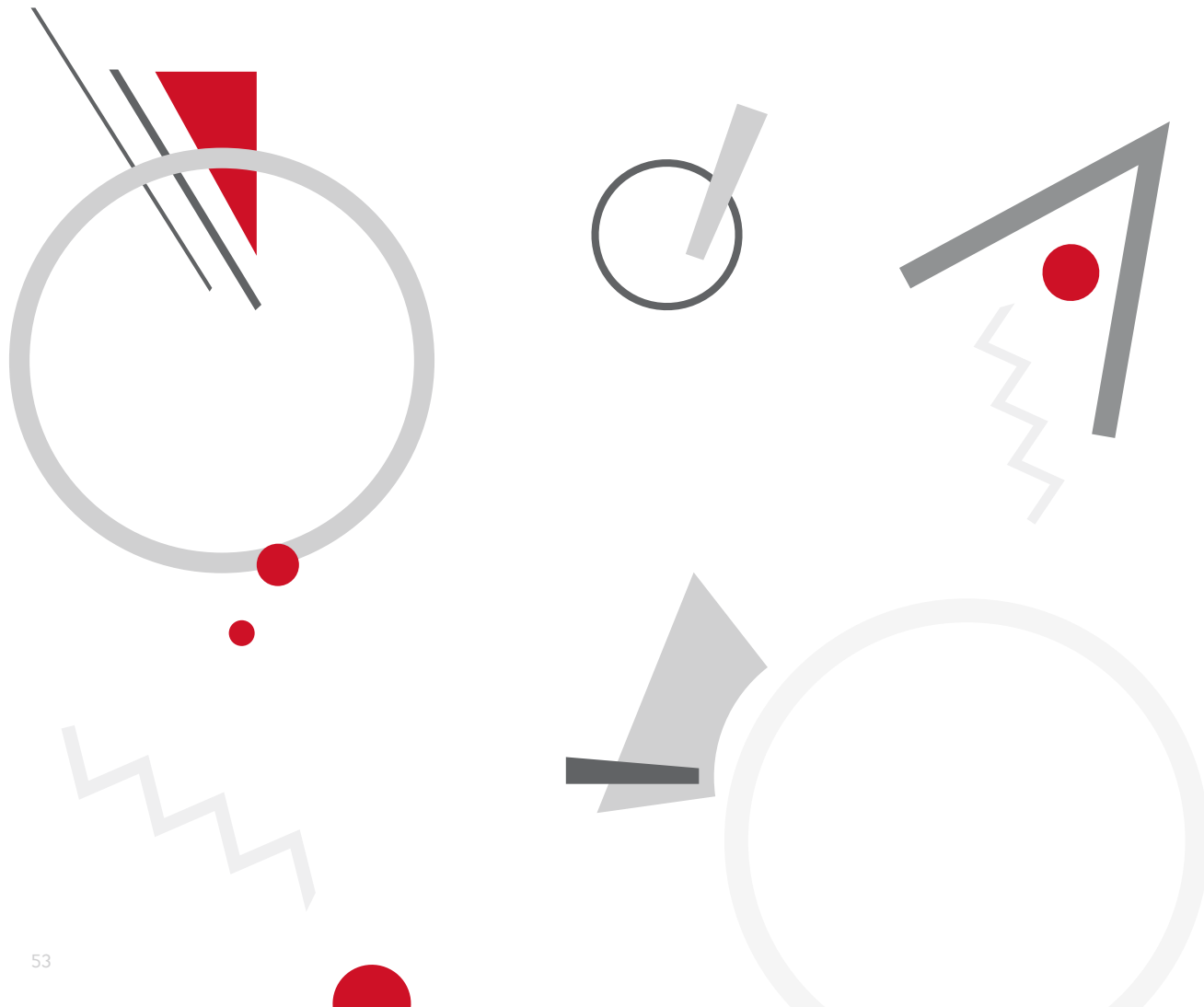
- NSD became a sponsor and participant of Urban Tech Challenge 2018, a hackathon backed

by the Government of Moscow with more than 500 attendees.

- The most motivated and highly engaged employees were invited to represent the company as NSD brand ambassadors. Their posts about NSD's corporate life are published on social media and NSD's official web pages.

# 06

## GENERAL INFORMATION ON NSD'S ACTIVITIES



# INFORMATION DISCLOSURE

NSD's Information Disclosure Rules approved by the Bank of Russia (Order No. 14-6-22/9132 dated 20 September 2017) set out the procedure for information disclosure, i.e., provision of the following information to an indefinite or unlimited number of concerned parties:

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

In particular, the Rules require that NSD act in accordance with the principle of transparency towards its shareholders, clients, business partners, counterparties, governmental authorities, employees, and other stakeholders. In accordance with the principle of transparency, the proper level of information disclosure is ensured by compliance with the following rules:

- Information disclosure practices must be consistent with NSD's and Moscow Exchange Group's development strategy (goals and objectives);
- Information disclosed must be accurate and accessible;
- Information must be disclosed in a timely fashion, regularly, and on a non-discriminatory basis;
- A reasonable balance must be stricken between NSD's transparency and NSD's and

Moscow Exchange Group's commercial interests;

- The requirements of the Russian laws and other regulations concerning trade secrets, bank secrecy, or insider information, as well as the requirements of NSD's internal regulations applicable to dealing with confidential information must be complied with;
- Standards of professional ethics must be complied with; and
- Information distribution channels must ensure free, easy, and inexpensive access by interested parties to any information disclosed.

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

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

## AUDIT

### The members of the Internal Audit Commission are:

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

The members of the Internal Audit Commission are:

1. **Natalia Bogatova;**
2. **Olga Gordienko;**
3. **Vladimir Sukhachev.**

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

### Material Aspects of Interaction with External Auditors

On 31 May 2018, NSD's annual General Meeting of Shareholders resolved to approve the appointment of Deloitte & Touche CIS as NSD's auditor to conduct audits under the Russian Accounting Standards (RAS) and the International Financial Reporting Standards (IFRS) for the period until NSD's annual General Meeting of Shareholders to take place in 2019.

|   |   |
|---|---|
| <b>Full name</b>  | <b>Joint-Stock company "Deloitte &amp; Touche CIS"</b>  |
| <b>Short name</b>   | Deloitte & Touche CIS   |
| <b>Registered Office</b>  | 5 Lesnaya Street, 125047 Moscow   |
| <b>Telephone and fax numbers</b>  | Tel.: +7 495 787-06-00. Fax: +7 495 787-06-01   |
| <b>E-mail</b>   | moscow@deloitte.ru  |
| <b>Full name and address of the self-regulatory organization of auditors in which the auditor has (had) membership</b>  | <ul style="list-style-type: none"> <li>Self-regulated organization of auditors "Russian Union of Auditors" (Association) 8 Petrovskiy Pereulok, Bldg. 2, 107031 Moscow</li> </ul> |
| <b>Financial year for which the auditor conducted an independent audit of the statutory accounting books and financial statements under Russian laws and the IFRS</b> | <ul style="list-style-type: none"> <li>2017, 2018</li> </ul>  |

Deloitte & Touche CIS is authorized under Russian laws to conduct independent audits of NSD's accounting system, financial statements (accounts), tax reports, financial results, and NSD's internal control system, as well as to prepare and present an auditor's report on NSD's financial statements prepared under the RAS and IFRS, and, if any material shortcomings in the accounting or internal control system are identified, issue an information letter, describing the shortcomings, to NSD's executives.

Deloitte & Touche CIS does not have any significant common interests with NSD or the Moscow Exchange Group.

Interaction with the external auditor is maintained under the Audit and Review Services Agreement. An audit is only intended to express an opinion on the validity of NSD's financial statements and on whether the accounting records are maintained by NSD in compliance with applicable Russian law. Validity means the degree of accuracy of the data contained in the financial statements and whether it enables a user of such financial statements to draw conclusions, on the basis of such data, regarding NSD's performance results, financial position, and assets, and to make informed decisions. During the audit period, the auditors also examine the tax accounting books and tax reports filed by NSD in the forms required (i.e., tax returns, tax calculations, etc.) and determine whether all tax reliefs were obtained lawfully. The purpose of a review is to express a conclusion whether, on the basis of the review, anything has come to the auditor's attention that causes the auditor to believe that NSD's interim financial statements for the first six months of the year are not prepared, in all material respects,

in accordance with IAS 34 «Interim Financial Reporting».

Interaction with the auditor includes several phases:

- Phase 1: analysis of NSD's information systems;
- Phase 2: review of the company's IFRS interim financial statements for the first six months of the year;
- Phase 3: intermediate procedures: audit of the state of accounting and controls, account balances, and tax filings for the nine months of the financial year;
- Phase 4: final procedures: audit of the state of accounting and controls, account balances, RAS and IFRS financial statements and tax filings for 12 months of the financial year.

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

Under the Audit and Review Services Agreement, the auditor undertakes to strictly comply with the laws of the Russian Federation and other regulations, including Federal Law No. 307-FZ "On Audit Activities" dated 30 December 2008, international standards on auditing, as well as Russian federal standards on auditing. Furthermore, the auditor is



required to:

- ensure that any documents received by the auditor in the course of an audit are kept safe and returned in due course, and that their contents or any other information are not disclosed without NSD's consent, except as provided by Russian law;
- if so requested by NSD, supply NSD with the necessary information on the requirements of the Russian laws with respect to the conduct of audits (including tax audits), and references to the regulations on which the auditor's comments and conclusions are based; and
- inspect the documents related to NSD's financial and business activities and the availability of any assets recorded in those documents.

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

financial statements or make adjustments to the tax returns and calculations.

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

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

## INTERNAL CONTROL

In compliance with the requirements set forth by Russian laws and Bank of Russia's regulations, NSD implements internal controls that are appropriate to the nature and scope of NSD's business (as the central securities depository and as a non-banking credit institution, professional securities market participant, clearing house, and trade repository), and to NSD's risk profile.

Internal controls are implemented to ensure that NSD pursues the following objectives:

- ensure that NSD's financial and commercial performance in the course of banking and any other operations and transactions is efficient and effective, and ensure the efficient management of assets and liabilities (including protection of assets) as well as efficient risk management;
- ensure that NSD's financial statements, accounting, statistical, and other reports (both internal and external) are accurate, complete and objective, and are prepared and submitted in a timely fashion, and maintain information security (safeguard the company's interests and objectives in the information field defined as a totality of information, information infrastructure, parties involved in information collection, generation, distribution, and use, and the framework of regulation of resulting relations);
- ensure compliance with the applicable Russian laws, Bank of Russia's regulations, self-

regulatory organizations' standards, and NSD's constitutional documents and internal regulations; and

- prevent NSD's or its employees' involvement in illegal activities (including money laundering and terrorist financing), and ensure that relevant information is reported to competent authorities and the Bank of Russia in a timely fashion in accordance with the Russian laws.

NSD's Supervisory Board, Executive Board, and Executive Board Chairman are actively involved in managing the internal control system. NSD has the Audit Committee, a standing advisory body of the Supervisory Board established to ensure the effectiveness of internal controls and internal audits, to assess the effectiveness of the risk management system, and to make recommendations to NSD's Supervisory Board and executive bodies to enable them to take decisions on those matters in accordance with the scope of their authority.

At NSD, there are two departments responsible for internal control on a continuous basis: the Internal Audit Department and the Internal Control Department.

The Internal Audit Department is responsible for assessing the reliability and effectiveness of internal controls, risk management, corporate governance, and business processes at NSD, providing NSD's management bodies with information upon completion of internal audits, and

giving advice on matters relating to internal controls.

The Internal Control Department is responsible for ongoing control over NSD's operations, including NSD's operations as CSD, professional securities market participant, clearing house, and trade repository, as well as over the work of the AML/CFT Officer and the Insider Trading Compliance Officer.

In 2018, in the field of AML/CFT, the priority was given to the automation and robotization of business processes, business support in the development of new products and services, and improvement of tools designed to monitor suspicious schemes. Compliance efforts were focused on ensuring compliance with increasing regulatory requirements to NSD's operations and foreign jurisdictions' requirements concerning tax risks (FATCA, The Common Reporting Standard), as well as on managing geopolitical risks.

In 2018, work was continued under the compliance policy, and an interactive format of the Code of Ethics was developed.

The Internal Control Department improves its control and monitoring tools on a continuous

## INFORMATION SECURITY

The work to ensure information security (IS) at NSD is organized in accordance with the Russian laws, the package of standardization documents issued by the Bank of Russia (entitled "Ensuring Information Security at Organizations of the Banking Industry of the Russian Federation") (the "BR ISBS Package"), NSD's Information Security Policy, and the best practices and international standards.

The IS activities are primarily intended to ensure the security of clients' assets, as well as the security of the company's banking, depository, settlement and information systems. The Information Security Division is entrusted with creating an effective system to manage IS risks and conducting works designed to identify and counter any possible threats.

In accordance with the requirements set out in the BR ISBS Package, the Information Security Division is actively involved in analyzing business processes, preparing terms of reference, rolling out hardware and software, and performing an expert review of contracts and agreements. In addition, the Information Security Division regulates processes designed to separate users' access, sets up and maintains information protection tools, allocates access rights, and maintains key information.

basis, including:

- monitoring of whether regulatory reports are submitted to the Bank of Russia in a timely fashion;
- access to insider information;
- timeliness of responses to Bank of Russia's enquiries, orders, and requests;
- quality of handling client enquiries that could be classified as complaints; and
- compliance with the AML/CFT requirements of the laws and Bank of Russia's regulations.

The multi-level internal control system enables NSD to efficiently identify and manage risks in all areas of its business.

An independent audit of NSD for compliance with the requirements set out in the BR ISBS Package and Bank of Russia's Regulations No. 382-P dated 9 June 2012 "On the Requirements to Information Security in the Course of Funds Transfers and the Procedure for Monitoring by the Bank of Russia of Compliance with Such Requirements" has confirmed that NSD complies with the Bank of Russia's requirements and observes the international Principles for Financial Market Infrastructures.

To maintain and raise its IS level, NSD took steps to improve information protection tools and to enhance security of source codes of business IT systems under development.

In the reporting year, NSD's Information Security Division paid specific attention to security of the company's internal systems, focusing on those accessible online, by addressing vulnerabilities identified by penetration and other tests. This process is now continuous, and related work will be continued in 2019.

NSD took steps to improve the process of IS incident management, which allowed the company to prevent, identify, and address a number of IS incidents before they caused negative consequences.

In 2018, more processes were automated, and the coverage of static code analysis was expanded to identify potential IS vulnerabilities. The steps taken proved their efficiency and resulted in a decrease in the number of vulnerabilities against previous periods, as shown by subsequent penetration tests.

The Information Security Division continuously improves the methodological and technological support of its activities. In particular, the Information Security Division regularly analyzes legislative and regulatory changes, providing the basis on which NSD can make necessary amendments to its internal regulations in a timely fashion, and implements and modernizes security and protection solutions.

## NSD'S INTERESTS IN OTHER ENTITIES

| Entity's Full and Short Name   | Registered Office                      | Interest in the Share Capital, % |
|--|--|----------------------------------|
| SWIFT SCRL (Society for Worldwide Interbank Financial Telecommunication) | Avenue Adèle 1, 1310 La Hulpe, Belgium | 0.0145                           |



**NATIONAL  
SETTLEMENT  
DEPOSITORY**  
MOSCOW EXCHANGE GROUP

12, Spartakovskaya St.,  
Moscow 105066, Russia

+7 495 234-48-27

+7 495 956-09-38

[www.nsd.ru/en/](http://www.nsd.ru/en/)