



# REPORT ON COMPLIANCE WITH NSD'S CORPORATE GOVERNANCE PRINCIPLES

№	Principle	Compliance
1	Ensuring governance of National Settlement Depository («NSD» or the «Company»), which meets the Company's strategic objectives, is consistent with the Company's corporate values and the scope of its business, and meets the needs and interests of its clients	<p>While NSD is a non-public company, NSD seeks to apply the best standards and practices in corporate governance. Application of the best standards and practices in corporate governance, as well as of the NSD's and Moscow Exchange Group's development strategy, is crucial to NSD's growth. The key objective of NSD's corporate governance is to build efficient decision-making mechanisms designed to manage strategic risks and to address growth challenges.</p> <p>NSD's corporate governance system comprises NSD's management, controlling, and other bodies.</p> <p>Interaction between NSD's shareholders is based on the Shareholders Agreement and aimed at maintaining the balance of interests of all NSD's shareholders.</p> <p>The Company cooperates with its clients effectively and seeks to act in their best interests. NSD's Customer Committees are the key tool of such cooperation. NSD has 8 Customer Committees members of which are representatives of NSD's clients. The Customer Committees are NSD's advisory bodies that discuss and formulate proposals for arrangement and improvement of client services, improvement of settlement technologies, and expansion of the range of products and services. They also discuss initiatives of making amendments to laws and regulations. The detailed information on NSD's Customer Committees and their activities is available on NSD's web site at <a href="http://www.nsd.ru">www.nsd.ru</a>.</p>
2	Ensuring that Supervisory Board's activities are based on: <ul style="list-style-type: none"> <li>• strategic governance of the Company;</li> </ul>	<p>NSD's strategic objectives are defined as part of the NSD's and Moscow Exchange Group's Development Strategy. The Company's strategic objectives are subject to continuous monitoring by the Executive Board, Strategy Committee, and Supervisory Board.</p> <p>In accordance with NSD's Articles of Association, the Supervisory Board is responsible for strategic governance of the Company by:</p> <ul style="list-style-type: none"> <li>• approval of the Company's business priorities; and</li> <li>• approval of NSD's development strategy and monitoring of compliance with it.</li> </ul>



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	<ul style="list-style-type: none"> <li>performance by the Supervisory Board of control functions over activities of NSD's executive bodies, as well as over the decision-making process aimed at addressing any shortcomings identified by such controls in activities of NSD's executive bodies;</li> <li>performance assessment of the Supervisory Board and Supervisory Board Committees and disclosure of results of such assessments; and</li> <li>segregation between control functions and management duties, and determination of individual and collective responsibility of Supervisory Board members.</li> </ul>	<p>On 23 April 2019, the Supervisory Board approved the NSD Development Strategy 2019–2024 (pre-approved by the Strategy Committee of NSD's Supervisory Board), which sets out NSD's strategic objectives until 2024.</p> <p>NSD's Supervisory Board exercises control over the performance of executive bodies by:</p> <ul style="list-style-type: none"> <li>appointment and removal of the Company's chief executive officer (Chairperson of the Executive Board) and members of the collegial executive body (Executive Board), and approval of their remuneration and benefits;</li> <li>granting permission to members of the Company's executive bodies to hold positions in management bodies of other organizations;</li> <li>preliminary approval of annual reports and submission thereof to the General Meeting of Shareholders;</li> <li>review of Company's performance reports prepared by the Executive Board;</li> <li>assessment of the performance of Company's executive bodies' members against the corporate and individual Key Performance Indicators and taking decisions upon such assessment, including decisions to pay bonuses.</li> </ul> <p>In 2019, NSD's Supervisory Board reviewed and took note of the following reports:</p> <ul style="list-style-type: none"> <li>report on the implementation of NSD's 2018 budget (resolution dated 12 March 2019);</li> <li>NSD's performance report for Q1 2019 (resolution dated 23 April 2019);</li> <li>report on the implementation of NSD's 2019 budget for 5M 2019 (resolution dated 2 July 2019);</li> <li>NSD's performance report for 8M 2019 (resolution dated 1 October 2019);</li> <li>report on the implementation of NSD's 2019 budget for 8M 2019 (resolution dated 1 October 2019); and</li> <li>NSD's preliminary performance report for 2019 (resolution dated 18 December 2019).</li> </ul> <p>On 12 March 2019, NSD's Supervisory Board reviewed the performance of executive bodies' members against their Key Performance Indicators and resolved to pay performance bonuses to them for 2018.</p> <p>No shortcomings were identified in the performance of NSD's executive bodies.</p> <p>An assessment of the state of corporate governance at NSD in accordance with the Bank of Russia's guidelines (an «Assessment») is an important tool designed to monitor the quality of corporate governance, including the effectiveness of Supervisory Board's work. An assessment is conducted at least on annual basis under the leadership of the Supervisory Board, and for this purpose officers are designated to collect and summarize information and to issue a report on the state of corporate governance to the Supervisory Board.</p>	<p>•</p> <p>•</p> <p>•</p> <p>•</p> <p>1</p> <p>2</p> <p>3</p> <p>4</p> <p>5</p> <p>6</p> <p>7</p> <p>8</p> <p>9</p> <p>10</p> <p>11</p>



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		In 2019, NSD's Supervisory Board conducted a scheduled Assessment in accordance with the methodology recommended by the Bank of Russia, with a focus, in particular, on the following areas of Supervisory Board's work:	
		<ul style="list-style-type: none"> <li>• overall management of NSD's operations and the establishment of business priorities;</li> <li>• organizing the Supervisory Board's activities, including its interaction with NSD's executive bodies;</li> <li>• compliance with the corporate governance principles;</li> <li>• availability of efficient risk management at NSD; and</li> <li>• availability and quality of necessary internal regulations, the approval of which is a matter reserved for the Supervisory Board.</li> </ul>	
		The assessment involved completing a questionnaire by the Supervisory Board members. The final assessment report was presented and approved at the meeting of the Supervisory Board on 5 March 2019.	
		In accordance with NSD's Articles of Association, Supervisory Board's management duties and control functions are segregated.	
		In terms of its control functions, the Supervisory Board controls:	1
		<ul style="list-style-type: none"> <li>• implementation of the Company's development strategy;</li> <li>• performance of executive bodies;</li> <li>• NSD's financial and business operations; and</li> <li>• NSD's risk management activities.</li> </ul>	2 3 4 5
		In terms of its management duties, the Supervisory Board is responsible for the overall management of the Company. In particular, the Supervisory Board approves key guiding principles of Company's operations, its strategy and business priorities, annual budgets, and risk management and internal control principles and approaches.	6 7
		In its work, the Supervisory Board follows the principle of accountability. Supervisory Board members act in the best interests of NSD, in good faith and reasonably, and may be held liable for their fraudulent or unreasonable practices, including where their actions or omissions were contrary to customary business practices or customary business risk. If their actions or omissions have caused damages to NSD or its shareholders, Supervisory Board members are liable to pay such damages.	8 9
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3	Ensuring the functioning of NSD's internal control, internal audit, and risk management systems	<p>At NSD, internal controls, internal audit, and risk management meet the Russian statutory requirements to NSD and the international guidelines for internal control, internal audit, and risk management systems.</p> <p>The Internal Control Department (ICD) is responsible for ongoing control over NSD's regulatory risk management practices as CSD, professional securities market participant, credit institution, clearing house, and trade repository; in particular, the ICD performs the internal control functions for the purposes of anti-money laundering, combating the financing of terrorism and the financing of proliferation of weapons of mass destruction, and combating insider trading and market manipulation. The ICD keep records of regulatory risk events, analyzes them, and assesses their probability and potential impact. The head of ICD reports potential and/or actual regulatory risk events that have resulted (or are capable to result) in significant consequences to the Chairperson of Executive Board. At least on an annual basis, the head of ICD submits an ICD performance report to the Supervisory Board. NSD ensures that the ICD performs its functions without any interference from NSD's business units or employees.</p> <p>The Internal Audit Department (IAD) is responsible for internal audits, including ongoing independent assessment of reliability, efficiency and effectiveness of internal controls, corporate governance, and business processes at NSD, as well as of the risk management system, and efficiency of the methods applied by NSD to ensure security of its assets. The IAD audits all areas of NSD's business, and any business unit or employee can be audited. The Company ensures the operational continuity, independence and impartiality of the IAD, as well as professional competence of its head and staff. NSD also ensures that the IAD smoothly and effectively exercises its functions. The IAD and the head of IAD report to, and are directly controlled by, NSD's Supervisory Board.</p> <p>The Company has in place a risk management system that is adequate to the nature and scope of its operations and encompasses risk reduction and mitigation measures; a risk monitoring system that ensures reporting necessary information to NSD's management bodies; and a process designed to manage key risks that can potentially have negative impact on NSD's operations. Risk management duties are allocated between the Supervisory Board, executive bodies, heads of NSD's key business units, the Risk Management Department, and the Internal Control Department (the latter is responsible for regulatory risk management). Information regarding the risk management system in place at NSD is communicated to shareholders, the Bank of Russia, and other stakeholders on a regular basis, by way of reporting or on the Company's web site.</p>

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4	Ensuring prevention, identification, and management of conflicts of interest arising in NSD's operations, and corruption control	<p>The measures taken by the Company to prevent conflicts of interest are set out in NSD's internal regulations, including in the Conflict of Interest Prevention Policy and the Code of Professional Ethics. The purpose of such measures is to prevent a situation in which employees' personal interests may hinder or prevent them from performing their duties in good faith and efficiently.</p> <p>In managing corruption risk, NSD acts in accordance with the key principles set out in NSD's Anti-Bribery and Corruption Policy: prevention of any corrupt practices; investigation of any situations that show signs, or give reason to suggest existence, of corruption risk; analysis of risks in business relations with counterparties; and employee awareness-raising and training. The key measures taken to control corruption risk are:</p> <ul style="list-style-type: none"> <li>• prohibition of giving/receiving anything of value (including gifts) with the intention to get assistance in solving any issue;</li> <li>• establishment of a body responsible for monitoring tender processes for the purpose of taking a decision on whether or not to enter into a contract;</li> <li>• incorporation of anti-corruption clauses into contracts;</li> <li>• performance of counterparty due diligence; and</li> <li>• providing employees with a possibility to report corruption risks (including anonymously).</li> </ul>
5	Ensuring the equitable and fair treatment of all shareholders exercising their right to participate in Company's management, and striking a balance between the rights and interests of NSD's clients and those of its counterparties or other stakeholders	<p>NSD ensures equitable and fair treatment of all shareholders exercising their right to participate in Company's management. Each shareholder may participate in a physical (in-person) General Meeting of Shareholders and cast a vote by any of the following methods: by mailing the voting ballot, or by attending the meeting personally, or by e-voting. Shareholders can use the e-voting option by completing an e-voting ballot on the dedicated web site. To ensure equitable treatment of all shareholders, NSD provides information regarding the convocation of a meeting and meeting materials both in Russian and in English, and also translates voting ballots into English to remove voting barriers for non-Russian shareholders in accordance with the OECD guidelines.</p> <p>Moreover, NSD seeks to establish long-term, stable, and mutually beneficial relations with its counterparties. NSD chooses its counterparties through a tender process that makes the contracting process transparent and allows the Company to choose best counterparties.</p>

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6	Ensuring the transparency of NSD's operations and efficient communications between NSD and its shareholders and other stakeholders	<p>Ensuring the transparency of NSD's operations and efficient communications between NSD and its shareholders and other stakeholders is one of the key corporate governance principles followed by NSD.</p> <p>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.</p> <p>NSD's shareholders enjoy equal rights to gain access to all corporate information.</p> <p>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.</p> <p>Information is disclosed in accordance with NSD's Information Disclosure Rules (the «Rules») approved by the Supervisory Board. The Rules set out the procedure for information disclosure, i.e., the procedure for ensuring that information on NSD is accessible by any interested party in the manner that enables such party to find and receive necessary information, including:</p> <ul style="list-style-type: none"> <li>• information to be disclosed by NSD in accordance with the Russian statutory requirements; and</li> <li>• information disclosed by NSD on its own accord or upon request by a party concerned.</li> </ul> <p>The principal channel used by NSD for information disclosure is NSD's web site at <a href="http://www.nsd.ru">www.nsd.ru</a> that is used to post information sufficient to understand any material aspects of the Company's business.</p> <p>Non-Russian shareholders and clients have access to the English-language version of NSD's web site, including Company's news, constitutional documents, key financials and operational performance figures, information on corporate governance, and contact details.</p>

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