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RISK MANAGEMENT

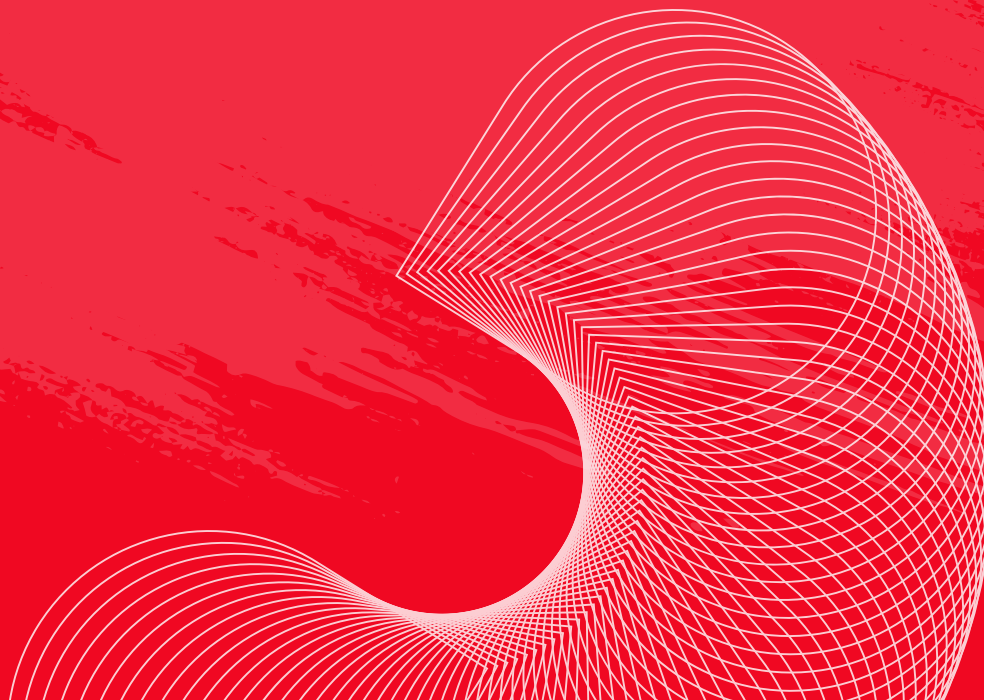


Risk profile

Key risk factors associated
with NSD's operations

Key milestones
in risk management in 2019

Plans for 2020





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 decision-making in the context of uncertainty and related risks, and the use of available opportunities.

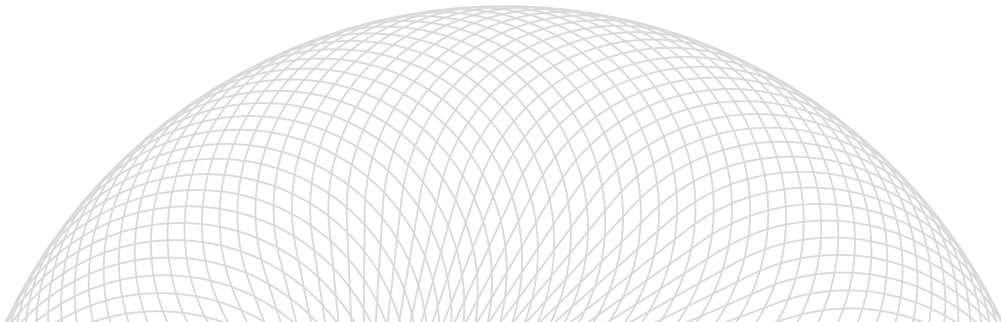
Detailed information on the risk management system, its organizational structure, and key principles of risk management is available on NSD's web site in the Risk Management section.

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.

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KEY RISK FACTORS ASSOCIATED WITH NSD'S OPERATIONS

Risk	Risk Factors / Sources	
Credit Risk	<ul style="list-style-type: none"> Counterparties' default on their obligations in transactions that bear credit risk 	
Market Risk	<ul style="list-style-type: none"> Changes in exchange rates Changes in the market value of securities in NSD's portfolio Changes in interest rates and yields 	
Liquidity Risk	<ul style="list-style-type: none"> Potential maturity mismatch between financial assets and financial liabilities Need for NSD to meet its financial liabilities immediately and at the same time 	1
Operational Risk	<ul style="list-style-type: none"> Ineffectiveness of internal business processes Human errors Malfunctioning of IT systems Cybercrime Fraud External events 	2 3 4 5 6
Legal Risk	<ul style="list-style-type: none"> Failure to perform contracts and agreements Flaws in the legal system Legal errors arising in the course of operations 	7 8 9
Regulatory Risk	<ul style="list-style-type: none"> Failure to comply with the requirements of laws, internal regulations, and industry standards applicable to NSD's operations 	10 11



Risk	Risk Factors / Sources
Reputational Risk	<ul style="list-style-type: none"> Negative perception of the company's financial solvency, quality of services, and operational reliability by clients and other stakeholders
Strategic Risk	<ul style="list-style-type: none"> Mistakes in decision-making regarding the company's development strategy Shortcomings in strategy implementation
Business Risk	<ul style="list-style-type: none"> Unforeseen costs arising in the course of providing services Flaws in management decisions taken in connection with the design and promotion of services External environment factors affecting company's income and expenses
Systemic Risk	<ul style="list-style-type: none"> 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

The key tools designed to manage risks include:

- 1) Collection and analysis of information on risk events.
- 2) Identification, assessment, and reduction of risks in NSD's current business processes, projects, and products.
- 3) Setting limits and other restrictions with respect to the risks taken.
- 4) Monitoring of compliance with the applicable risk appetite parameters.
- 5) Managing the assets and liabilities portfolio for the purpose of its optimization in terms of maturity and structure.
- 6) Setting aside reserves to cover potential losses.
- 7) 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 strength, 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.

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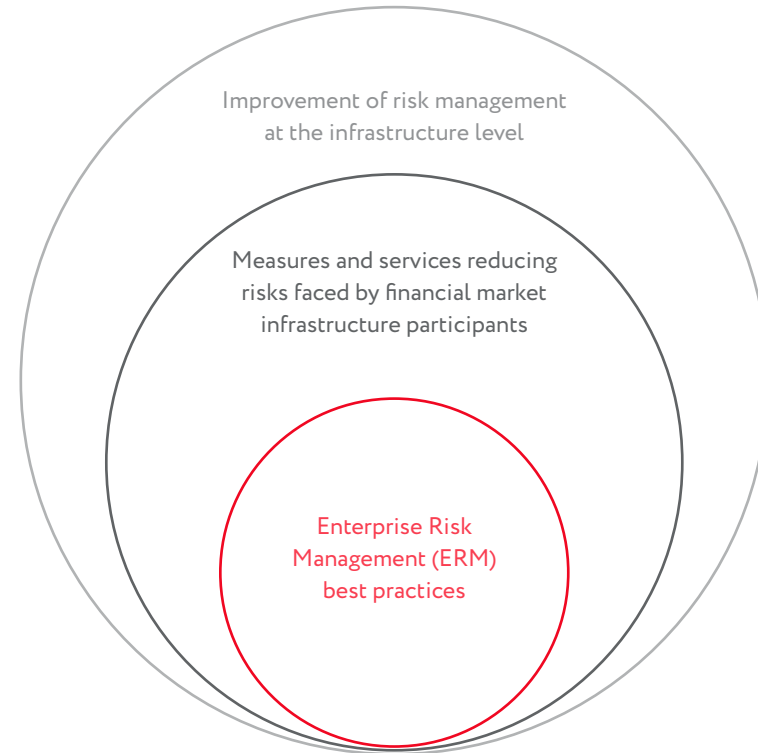
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KEY MILESTONES IN RISK MANAGEMENT IN 2019

In 2019, 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 2019 include the following:

- Steps taken to ensure operational reliability and failure-free operation of NSD's processes.
- Implementation of the program designed to build a risk culture and to raise staff and senior management's awareness of risk management tools and practices.
- Automation of a number of risk and control management processes.
- Updating of approaches and methods for ensuring the company's financial strength.



PLANS FOR 2020

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:

- Ensuring a high level of risk culture and risk management competencies possessed by company's staff and senior management.
- Risk assessment of NSD's strategic projects and initiatives.
- Further improvement of the procedures designed for evaluation of reliability and financial strength of legal entities involved in recordkeeping or safekeeping of assets owned by NSD or its clients.

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