



04

Risk Management

Risk Profile

Key Risk Factors Associated
with NSD's Operations

Key Milestones in Risk
Management in 2020

Plans for 2021





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.



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
Operational risk	<ul style="list-style-type: none"> • Ineffectiveness of internal business processes • Human errors • Malfunctioning of IT systems • Cybercrime • Fraud • External events
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
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
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.



Key Milestones in Risk Management in 2020

In 2020, NSD continued its efforts to improve its risk management tools and practices.

In March 2020, NSD's Supervisory Board approved the company's risk management priorities for 2020-2021, which are focused both at maintaining the current maturity level of the risk management system, and at ensuring its further evolution.

The key developments in 2020 were as follows:

- implementation of processes designed to ensure availability of up-to-date and full information on company's risks in ongoing operations, project risks, and strategic risks;

- dedicated business continuity and information security training sessions for company's management and staff, with further skill assessment tests;
- development of control effectiveness assessment practices together with the second line of defence;
- development of tools for risk management process automation and integration of the internal audit function into the risk management and internal controls system.

Plans for 2021

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;

- development of strategic risk management and risk appetite approval and monitoring processes;
- putting in place tools for risk scenario analysis;
- further development of counterparty due diligence processes.