

**NON-BANKING CREDIT
ORGANIZATION JOINT
STOCK COMPANY
NATIONAL SETTLEMENT
DEPOSITORY**

Annual statutory financial statements for the year
2019 and independent auditor's report
(Translated from the Original in Russian –
Unofficial Translation)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Supervisory Board of Non-banking Credit Organization Joint Stock Company "National Settlement Depository":

Opinion

We have audited the accompanying annual statutory financial statements of Non-banking Credit Organization Joint Stock Company National Settlement Depository (hereinafter, the "Organization") for the year 2019 (hereinafter, the "annual financial statements"), which comprise:

- Balance sheet (published form) as at 1 January 2020;
- Statement of financial results (published form) for 2019;
- Notes to the balance sheet and statement of financial results, including:
 - Statement of capital adequacy for risks coverage (published form) as at 1 January 2020;
 - Statement of changes in equity (published form) for 2019;
 - Information on statutory requirements, gearing ratio and short-term liquidity ratio (published form) as at 1 January 2020;
 - Statement of cash flows (published form) for 2019;
 - Explanatory notes to the annual statutory financial statements.

In our opinion, the accompanying statutory financial statements present fairly, in all material respects, the financial position of the Organization as at 1 January 2020, and its financial performance and cash flows for 2019 in accordance with Russian accounting and financial reporting standards for credit organizations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Organization in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of annual financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the annual financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the annual financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the annual financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the annual financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the annual financial statements in accordance with Russian accounting and financial reporting standards for credit organizations, and for such internal control as management determines is necessary to enable the preparation of the annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's annual financial reporting process.

Auditor's responsibilities for the audit of the annual financial statements

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken based on these annual financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual statutory financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on procedures performed in accordance with Federal Law No. 395-1 "On Banks and Banking Activities" dated 2 December 1990

Management of the Organization is responsible for compliance with the obligatory ratios established by the Bank of Russia, as well as for compliance of the Organization's internal control and risk management systems with the Bank of Russia requirements.

In accordance with Article 42 of Federal Law No. 395-1 "On Banks and Banking Activities" dated 2 December 1990 (hereinafter, the "Federal Law"), in the course of our audit of the Organization's annual financial statements for 2019 we performed procedures with respect to the Organization's compliance with the obligatory ratios as at 1 January 2020 and compliance of its internal control and risk management systems with the CBRF requirements.

We have selected and performed procedures based on our judgment, including inquiries, analysis and review of documentation, comparison of the Organization's policies, procedures and methodologies with the CBR requirements, as well as recalculations, comparisons and reconciliations of numeric values and other information.

We report our findings below:

1. With respect to the Organization's compliance with the obligatory ratios: the obligatory ratios as at 1 January 2020 were within the limits established by the CBRF.
2. We have not performed any procedures with respect to the Organization's financial information other than those we considered necessary to express our opinion on whether the annual financial statements of the Organization present fairly, in all material respects, the financial position of the Organization as at 1 January 2020, its financial performance and its cash flows for 2019 in accordance with the Russian accounting and financial reporting standards for credit organizations;
3. With respect to compliance of the Organization's internal control and risk management systems with the Bank of Russia requirements, we note the following:
 - (a) In accordance with the requirements and recommendations of the CBRF, as at 31 December 2019 the Organization's internal audit department was accountable to the Organization's Supervisory Board, and the Organization's risk management department was not subordinated or accountable to the departments undertaking the respective risks, heads of the Organization's internal audit and risk management departments meet the qualification requirements set by the CBRF;
 - (b) As at 31 December 2019, the Organization's effective internal policies governing the identification and management of significant risks, including credit, operational, market, liquidity risks, and the performance of stress-testing were approved by the Organization's competent management bodies in accordance with the CBRF requirements and recommendations;
 - (c) As at 31 December 2019, the Organization had a reporting system with regard to the Organization's significant credit, operational, market, liquidity risks and with regard to the Organization's capital;

- (d) Frequency and sequential order of reports prepared by the Organization's risk management and internal audit departments in 2019 on management of credit, operating, market and liquidity risks were in compliance with the Organization's internal policies; these reports included results of monitoring by the Organization's risk management and internal audit departments of effectiveness of the Organization's respective methodologies and improvement recommendations;
- (e) As at 31 December 2019, the authority of the Organization's Supervisory Board and the Organization's executive bodies included control over compliance with the risk limits and capital adequacy ratios established by the Organization. In order to control the effectiveness and consistency of application of the Organization's risk management policies, during 2019 the Organization's Supervisory Board and its executive bodies have regularly discussed reports prepared by the risk management and internal audit departments and have considered the proposed corrective measures.

We have carried out procedures with respect to the Organization's internal control and risk management systems solely to report on the findings related to compliance of the Organization's internal control and risk management systems with the requirements of the Bank of Russia.

Shvetsov Andrei Viktorovich,
Engagement Partner

27 March 2020

The following financial statements were prepared for use in the Russian Federation in accordance with accounting principles and financial reporting practices generally accepted in the Russian Federation and are not intended to present the financial position and results of operations of the audited entity in accordance with accounting principles and practices generally accepted in any other jurisdiction.

The Entity: National Settlement Depository

Certificate of state registration № 3294, issued by the Bank of Russia on 27.06.1996

Primary state registration number: 1027739132563

Certificate of registration in Unified State Register: № 77 007811464 of 30.08.2002 issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Address: 105066, Moscow, Spartakovskaya str., 12

Audit firm: AO Deloitte & Touche CIS

Certificate of State Registration No. 018.482 issued by Moscow Registration Chamber on 30 October 1992.

Primary State Registration Number: 1027700425444

Certificate of Registration in the Unified State Register of Legal Entities series 77 No. 004840299 issued by Interregional Inspectorate of the Russian Ministry of Taxes and Levies No. 39 for Moscow on 13 November 2002.

Member of Self-Regulated Organisation of Auditors "Sodruzhestvo" (Association), ORNZ 12006020384.

UNOFFICIAL TRANSLATION

OKATO territory code	Banking financial statements Code of the credit institution (branch)	
	OKPO	Registration No. (/sequential No.)
45	42949474	3294

BALANCE SHEET
(published form)
for 2019

Full name or short name
of the credit organization

Non-banking Credit Organization Joint Stock Company National Settlement
Depository

Address (location) of the
credit organization:

12 Spartakovskaya St., Moscow 105066

OKUD code 0409806
Quarterly (annual)

Line	Item description	Note	For the reporting period, RUB'000	For the previous reporting period, RUB'000
1	2	3	4	5
I. ASSETS				
1	Cash	3.1, 3.28, 5	1 975	2 222
2	Balances with the Central Bank of the Russian Federation	3.2, 3.28, 5	2 163 103	3 178 121
2.1	Minimum reserve deposits		0	0
3	Due from credit institutions	3.3, 3.28, 5	156 454 116	108 339 250
4	Financial assets at fair value through profit or loss	3.4, 5	25 594	12 106 377
5	Net loans receivable at amortized cost		0	0
5a	Net loans receivable		0	0
6	Net investments in financial assets measured at fair value through other comprehensive income	3.5, 5	20 027 605	0
6a	Net investments in securities and other financial assets available for sale	3.6	0	9 233
7	Net investments in securities and other financial assets at amortized cost (other than net loans receivable)		0	0
7a	Net investments in securities held to maturity		0	0
8	Investments in subsidiaries and associates		0	0
9	Current income tax assets		27 825	11 000
10	Deferred income tax asset		98 478	109 973
11	Property and equipment, intangible assets and inventories	3.7	4 884 838	4 902 521
12	Non-current assets held for sale		0	0
13	Other assets	3.8, 5	743 904	703 593
14	Total assets		184 427 438	129 362 290
II. LIABILITIES				
15	Loans, deposits and other balances due to the Central Bank of the Russian Federation	3.9, 5	200	234
16	Customer accounts at amortized cost	3.10, 3.11, 5	159 301 739	92 517 192
16.1	Due to credit institutions	3.10, 5	137 574 123	75 507 859
16.2	Customer accounts (other than credit institutions)	3.11, 5	21 727 616	17 009 333
16.2.1	Deposits by individuals, including individual entrepreneurs		0	0
17	Financial liabilities at fair value through profit or loss		0	0
17.1	Deposits by individuals, including individual entrepreneurs		0	0
18	Debt securities issued		0	0
18.1	At fair value through profit or loss		0	0
18.2	At amortized cost		0	0
19	Current income tax liabilities		0	40 677
20	Deferred tax liabilities		0	0
21	Other liabilities	3.12, 5	12 841 083	25 536 241
22	Allowance for losses under loan commitments, other losses and transactions with offshore residents		20	21
23	Total liabilities		172 143 042	118 094 365

UNOFFICIAL TRANSLATION

Line	Item description	Note	For the reporting period, RUB'000	For the previous reporting period, RUB'000
1	2	3	4	5
III. EQUITY				
24	Shareholders' (participants') equity	3.13	1 180 675	1 180 675
25	Treasury shares		0	0
26	Share premium		0	0
27	Reserve fund	3.14	177 101	177 101
28	Fair value revaluation of financial assets at fair value through other comprehensive income decreased by deferred tax liability (increased by deferred tax asset)		61 254	0
29	Revaluation of property, equipment and intangible assets decreased by deferred tax liability		0	0
30	Revaluation of liabilities (assets) on payment of long-term benefits		0	0
31	Revaluation of hedging instruments		0	0
32	Grant financing (property investments)		0	0
33	Change in fair value of the financial liability attributable to changes in the credit risk		0	0
34	Allowances for expected credit losses		5 405	0
35	Retained earnings (accumulated deficit)		10 859 961	9 910 149
36	Total equity		12 284 396	11 267 925
IV. OFF-BALANCE SHEET COMMITMENTS				
37	Irrevocable commitments		11 086 324	17 856 159
38	Guarantees issued		0	0
39	Non-credit contingent liabilities		0	0

Chairman of the Management Board

E.V. Astanin

Chief Accountant, Accounting and Financial Reporting Director

I.E. Veremeenko

Drafted by

S.V. Vigovskaya

Tel.: (495) 234-48-29

27 March 2020

OKATO territory code	Code of the credit institution (branch)	
	OKPO	Registration No. (/sequential No.)
45	42949474	3294

STATEMENT OF FINANCIAL RESULTS
(published form)
for 2019

Full name or short name
of the credit organization

Non-banking Credit Organization Joint Stock Company National Settlement
Depository

Address (location) of the
credit organization:

12 Spartakovskaya St., Moscow 105066

OKUD code 0409807
Quarterly (annual)

Section 1. Profit and loss

Line	Item description	Note	For the reporting period, RUB'000	For the corresponding period of the previous year, RUB'000
1	2	3	4	5
1	Interest income, total, including:	3.15, 5	1 240 183	1 702 313
1.1	due from credit institutions	3.15, 5	78 554	263 461
1.2	on loans to customers (other than credit organizations)		0	0
1.3	from finance lease services		0	0
1.4	from investments in securities	3.15, 5	1 161 629	1 438 852
2	Interest expense, total, including:	3.16	219 708	147 906
2.1	deposits by credit organizations	3.16	219 708	147 906
2.2	on deposits by customers (other than credit organizations)		0	0
2.3	securities issued		0	0
3	Net interest income (negative interest margin)		1 020 475	1 554 407
4	Change in allowance for losses and allowance for expected credit losses on loans and loan equivalents, balances on correspondent accounts and accrued interest income, total, including:	3.23, 5	864	0
4.1	Change in allowance for losses and allowance for expected credit losses on accrued interest income	3.23, 5	281	0
5	Net interest income (negative interest margin) after allowance for losses		1 021 339	1 554 407
6	Net gain on financial assets at fair value through profit or loss	3.17, 5	2 396 410	-62 024
7	Net income from operations with financial liabilities at fair value through profit or loss		0	0
8	Net gain on securities at fair value through other comprehensive income	3.18, 5	-14 153	0
8a	Net gain on securities available for sale		0	0
9	Net gain on securities at amortized cost		0	0
9a	Net gain on securities held to maturity		0	0
10	Net gain on foreign exchange operations	3.19, 5	-18 310	1 160 917
11	Net gain on foreign currency revaluation	3.20	-1 048 718	-989 938
12	Net gain from operations with precious metals		0	0
13	Income from investments in other entities		0	0
14	Fee and commission income	3.21, 5	6 038 267	5 293 011
15	Fee and commission expense	3.22, 5	510 983	549 553
16	Change in allowance for losses and allowance for expected credit losses on securities measured at fair value through other comprehensive income		-7 038	0
16a	Change in allowance for losses on securities available for sale		0	0
17	Change in allowance for losses and allowance for expected credit losses on securities at amortized cost		0	0

Line	Item description	Note	For the reporting period, RUB'000	For the corresponding period of the previous year, RUB'000
1	2	3	4	5
17a	Change in allowance for losses on securities held to maturity		0	0
18	Change in allowance for other losses	3.23, 5	72 823	-13 382
19	Other operating income	3.24, 5	49 266	45 589
20	Net income (expense)		7 978 903	6 439 027
21	Operating expenses	3.25, 5	3 257 733	2 920 737
22	Profit (loss) before income tax		4 721 170	3 518 290
23	Tax benefit (expense) ¹	3.26	1 014 076	761 008
24	Profit (loss) from continuing operations		3 707 094	2 757 282
25	Profit (loss) from discontinued operations		0	0
26	Profit (loss) for the reporting period		3 707 094	2 757 282

Section 2. Other comprehensive income

Line	Item description	Note	For the reporting period, RUB'000	For the corresponding period of the previous year, RUB'000
1	2	3	4	5
1	Profit (loss) for the reporting period		3 707 094	2 757 282
2	Other comprehensive income (loss)		X	X
3	Items that are not reclassified to profit or loss, total, including:		0	0
3.1	change in property and equipment and intangible assets revaluation reserve		0	0
3.2	change in revaluation reserve for liabilities (assets) on defined post-employment benefit plans		0	0
4	Income tax related to items that cannot be reclassified to profit or loss		0	0
5	Other comprehensive income (loss) that cannot be reclassified to profit or loss, net of income tax		0	0
6	Items that can be reclassified to profit or loss, total, including:		83 325	0
6.1	change in revaluation reserve for financial assets at fair value through other comprehensive income		83 325	0
6.1a	change in revaluation reserve for financial assets available for sale		0	0
6.2	change in revaluation reserve for financial liabilities at fair value through profit or loss		0	0
6.3	change in cash flow hedge reserve		0	0
7	Income tax related to items that can be reclassified to profit or loss		16 666	0
8	Other comprehensive income (loss) that can be reclassified to profit or loss, net of income tax		66 659	0
9	Other comprehensive income (loss), net of income tax		66 659	0
10	Financial result for the reporting period		3 773 753	2 757 282

Chairman of the Management Board

E.V. Astanin

Chief Accountant, Accounting and Financial Reporting Director

I.E. Veremeenko

Drafted by
Tel.: (495) 234-48-29

S.V. Vigovskaya

27 March 2020

¹ In accordance with the procedure for preparing the Statement of financial results as approved by the Bank of Russia, a positive value of the item reflects tax expense.

Banking financial statements

OKATO territory code	Code of the credit institution (branch)	
	OKPO	Registration No. (/sequential No.)
45	42949474	3294

STATEMENT OF CAPITAL ADEQUACY FOR RISK COVERAGE
(published form)
as at 1 January 2020

Full name or short name
of the credit organization

Non-banking Credit Organization Joint Stock Company National Settlement
Depository

Address (location) of the
credit organization (parent
credit organization in the
banking group)

12 Spartakovskaya St., Moscow 105066

OKUD code 0409808
Quarterly (annual)

Section 1.1 Capital adequacy ratio

Line	Instrument (indicator)	Note	Cost of an instrument (indicator amount) as at the reporting date, RUB'000	Cost of an instrument (indicator amount) as at the beginning of the reporting year, RUB'000
1	2	3	4	5
1	Share capital and share premium, total, formed by:	3.13	1 180 675	1 180 675
1.1	ordinary shares	3.13	1 180 675	1 180 675
1.2	preference shares		0	0
2	Retained earnings (accumulated deficit):		7 152 867	7 152 867
2.1	of prior years		7 152 867	7 152 867
2.2	of the reporting year		0	0
3	Reserve fund	3.14	177 101	177 101
4	Sources of common equity, total (line 1 +/- line 2 + line 3)		8 510 643	8 510 643
5	Items decreasing common equity sources, total, including:		2 363 705	2 304 622
5.1	Insufficient allowance for losses		0	0
5.2	Investments in treasury shares		0	0
5.3	Negative value of additional capital		0	0
6	Common equity (line 4 - line 5)		6 146 938	6 206 021
7	Sources of additional capital		0	0
8	Items decreasing additional capital sources, total, including:		0	0
8.1	Investments in own additional capital instruments		0	0
8.2	Negative value of supplementary capital		0	0
9	Additional capital, total (line 7 - line 8)		0	0
10	Core capital, total (line 6 + line 9)		6 146 938	6 206 021
11	Sources of supplementary capital, total, including:		3 620 863	2 716 327
11.1	Allowance for losses		0	0
12	Items decreasing sources of supplementary capital, total, including:		0	0
12.1	Investments in own supplementary capital instruments		0	0
12.2	receivables past due for over 30 calendar days		0	0
12.3	excess of the aggregate amount of loans, bank guarantees and sureties provided to the shareholders (participants) and insiders over its maximum value		0	0
12.4	investments in construction and purchase of property and equipment and tangible assets		0	0
12.5	difference between the actual value of ownership interest due to the participants who left the company, and the value at which the share was sold to another participant		0	0
13	Supplementary capital, total (line 11 - line 12)		3 620 863	2 716 327
14	Equity (capital), total (line 10 + line 13)		9 767 801	8 922 348
15	Risk weighted assets:		X	X
15.1	necessary for determining the capital adequacy ratio for core capital		-	-
15.2	necessary for determining the capital adequacy ratio		30 694 939	32 053 667

Section 2. Credit, operational and market risks covered by capital

Subsection 2.1. Credit risk

Line	Description	Note	As at the reporting date, RUB'000			As at the beginning of the reporting year, RUB'000		
			Assets (instruments) measured using a standardized approach	Assets (instruments) less allowance for losses	Value of risk- weighted assets (instruments)	Assets (instruments) measured using a standardized approach	Assets (instruments) less allowance for losses	Value of risk- weighted assets (instruments)
1	2	3	4	5	6	7	8	9
1	Credit risk on assets recorded on balance sheet accounts, total, including:		67 731 668	67 660 091	12 736 507	40 724 120	40 633 995	10 649 462
1.1	bearing the risk rate of ¹ 0%		22 115 496	22 115 496	0	3 180 343	3 180 343	0
1.2	bearing the risk rate of 20%		41 010 110	41 010 110	8 202 022	33 505 237	33 505 237	6 701 047
1.3	bearing the risk rate of 50%		0	0	0	0	0	0
1.4	bearing the risk rate of 100%		4 606 062	4 534 485	4 534 485	4 038 540	3 948 415	3 948 415
1.5	assets – loan receivables and other receivables from central banks and governments of countries with a country rating of ⁷ 2 bearing the risk rate of 150 percent		0	0	0	0	0	0
2	Assets bearing other risk rates, total, including:	X	X	X	X	X	X	X
2.1	bearing lower risk rates, total, including:		115 707 340	115 707 340	5 785 367	75 086 045	75 086 045	5 276 311
2.1.1	mortgage loans bearing the risk rate of 35%		0	0	0	0	0	0
2.1.2	mortgage loans bearing the risk rate of 50%		0	0	0	0	0	0
2.1.3	mortgage loans bearing the risk rate of 70%		0	0	0	0	0	0
2.1.4	mortgage loans and other loans, including issued to small and medium businesses, bearing the risk rate of 75%		0	0	0	0	0	0
2.1.5	receivables from clearing participants		115 707 340	115 707 340	5 785 367	73 056 720	73 056 720	4 748 687
2.2	bearing higher risk rates, total, including:		111 941	111 941	376 390	155 639	155 635	484 330
2.2.1	bearing the risk rate of 110%		0	0	0	0	0	0
2.2.2	bearing the risk rate of 130%		0	0	0	32 984	32 980	42 874
2.2.3	bearing the risk rate of 150%		3 463	3 463	5 195	2 682	2 682	4 023
2.2.4	bearing the risk rate of 250%		98 478	98 478	246 195	109 973	109 973	274 933
2.2.5	bearing the risk rate of 300%		0	0	0	0	0	0
2.2.6	bearing the risk rate of 1250%, total, including:		10 000	10 000	125 000	0	0	0
2.2.6.1	on transactions on assignment of monetary claims to mortgage agents or specialized companies, including those certified by mortgages		0	0	0	0	0	0
3	Consumer loans, total, including:		0	0	0	0	0	0
3.1	bearing the risk rate of 110%		0	0	0	0	0	0

Line	Description	Note	As at the reporting date, RUB'000			As at the beginning of the reporting year, RUB'000		
			Assets (instruments) measured using a standardized approach	Assets (instruments) less allowance for losses	Value of risk- weighted assets (instruments)	Assets (instruments) measured using a standardized approach	Assets (instruments) less allowance for losses	Value of risk- weighted assets (instruments)
1	2	3	4	5	6	7	8	9
3.2	bearing the risk rate of 120%							
3.3	bearing the risk rate of 140%		0	0	0	0	0	0
3.4	bearing the risk rate of 170%		0	0	0	0	0	0
3.5	bearing the risk rate of 200%		0	0	0	0	0	0
3.6	bearing the risk rate of 300%		0	0	0	0	0	0
3.7	bearing the risk rate of 600%		0	0	0	0	0	0
4	Credit risk on credit commitments, total, including:		0	0	0	0	0	0
4.1	high-risk financial instruments		0	0	0	0	0	0
4.2	medium-risk financial instruments		0	0	0	0	0	0
4.3	low-risk financial instruments		0	0	0	0	0	0
4.4	zero risk financial instruments		0	0	0	0	0	0
5	Credit risk on derivative financial instruments		0	X	0	0	X	0

¹ Assets are classified by risk group in accordance with item 2.3 of the Bank of Russia Directive No. 180-I.

² Country risk assessments are stated as per the classification of Export Credit Agencies that are the Participants to the Arrangement between members of the Organization for Economic Cooperation and Development (the "OECD") "On Officially Supported Export Credits" (information on country risk assessments is published on the official website of the OECD).

Subsection 2.2. Operational risk

RUB'000 (amount)				
Line	Item description	Note	As at the reporting date	As at the beginning of the reporting year
1	2	3	4	5
6	Operational risk, total, including:		943 734	1 126 759
6.1	income for the purposes of capital coverage of operational risk, total, including:			
6.1.1	net interest income		6 291 560	7 511 726
6.1.2	net non-interest income		1 691 998	2 244 268
6.2	number of years before the operational risk measurement date		4 599 562	5 267 458
			3	3

Subsection 2.3. Market risk

RUB'000				
Line	Item description	Note	As at the reporting date, RUB'000	As at the beginning of the reporting year, RUB'000
1	2	3	4	5
7	Aggregate market risk, total, including:		0	1 559 075
7.1	interest rate risk		0	124 726
7.2	stock market risk		0	0
7.3	currency risk		0	0
7.4	commodity risk		0	0

Section 3. Information about certain assets, credit commitments and allowance for loans

Subsection 3.1. Information about allowance for losses on loans and other assets

RUB'000					
Line	Item description	Note	As at the reporting date	Increase (+)/decrease (-) for the reporting period	As at the beginning of the reporting year
1	2	3	4	5	6
1	Recorded allowance for losses, total, including:		71 597	-18 551	90 148
1.1	on loans, loan receivables and its equivalents		0	0	0
1.2	on other balance sheet assets subject to risk of losses, and other losses		71 577	-18 550	90 127
1.3	on credit commitments and securities the title to which is certified by depositaries not meeting the Bank of Russia criteria, carried on off-balance sheet accounts		0	0	0
1.4	on transactions with offshore residents		20	-1	21

Subsection 3.2. Information about assets and credit commitments classified by the credit organization's authorized body to a higher category of quality rather than based on formalized credit risk assessment criteria

Line	Item description	Amount of claims, RUB'000	Allowance for losses				Change in allowance for losses	
			in accordance with minimum requirements established by Regulation of the Bank of Russia No. 590-P and Regulation of the Bank of Russia No. 611-P		based on a decision of the authorized body			
			%	RUB'000	%	RUB'000	%	RUB'000
1	2	3	4	5	6	7	8	9
1	Requirements to counterparties having indicators evidencing they do not probably have any actual business activities, total, including:	-	-	-	-	-	-	-
1.1	loans	-	-	-	-	-	-	-
2	Renegotiated loans	-	-	-	-	-	-	-
3	Loans granted to borrowers for the repayment of previous debts	-	-	-	-	-	-	-
4	Loans used for granting loans to third parties and repayment of other borrowers' debts, total, including:	-	-	-	-	-	-	-
4.1	to the reporting credit organization	-	-	-	-	-	-	-
5	Loans used for purchasing and (or) repayment of equity securities	-	-	-	-	-	-	-
6	Loans used for investments in share capitals of other legal entities	-	-	-	-	-	-	-
7	Loans resulted from termination of borrower's obligations through novation or compensation	-	-	-	-	-	-	-
8	Credit commitments to counterparties having indicators evidencing they do not probably have any actual business activities	-	-	-	-	-	-	-

Subsection 3.3. Information on securities the title to which is certified by depositaries and allowances for losses on which are made in accordance with the Bank of Russia Directive No. 2732-U

RUB'000

Line	Item description	Carrying value of securities	Fair value of securities	Allowance for losses		
				in accordance with the Bank of Russia Regulation No. 611-P	in accordance with the Bank of Russia Directive No. 2732-U	Total
1	2	3	4	5	6	7
1.	Securities, total, including:	-	-	-	-	-
1.1	securities the title to which is certified by foreign depositaries	-	-	-	-	-
2.	Equity securities, total, including:	-	-	-	-	-
2.1	securities the title to which is certified by foreign depositaries	-	-	-	-	-
3.	Debt securities, total, including:	-	-	-	-	-
3.1	securities the title to which is certified by foreign depositaries	-	-	-	-	-

Section 3.4. Assets pledged and not pledged as collateral

RUB'000

Line	Item description	Carrying amount of pledged assets		Carrying amount of not pledged assets	
		total	including commitments to the Bank of Russia	total	including assets pledgeable to the Bank of Russia
1	2	3	4	5	6
1	Total assets, including:	0	0	202 473 288	20 007 706
2	Equity securities, total, including:	0	0	6 063	0
2.1	credit organizations	0	0	0	0
2.2	legal entities (non-credit organizations)	0	0	6 063	0
3	Debt securities, total, including:	0	0	20 007 706	20 007 706
3.1	credit organizations	0	0	0	0
3.2	legal entities (non-credit organizations)	0	0	20 007 706	20 007 706
4	Correspondent accounts with credit organizations	0	0	72 214 181	0
5	Interbank loans (deposits)	0	0	0	0
6	Loans to legal entities other than credit organizations	0	0	0	0
7	Loans to individuals	0	0	0	0
8	Property and equipment	0	0	2 527 154	0
9	Other assets	0	0	107 718 183	0

Section "Additional Information".

Information on movements in the allowance for losses on loans and loan equivalents.

1. Allowance (additional allowance) in the reporting period (RUB thousand), total 0, including due to:
 - 1.1. issue of loans 0;
 - 1.2. change in loan quality 0;
 - 1.3. change in the official foreign exchange rate established by the Bank of Russia <1>, 0;
 - 1.4. other reasons 0.
2. Reversal (decrease) of allowance in the reporting period (RUB thousand), total 0, including due to:
 - 2.1. write-off of uncollectible loans 0;
 - 2.2. loan repayment 0;
 - 2.3. change in loan quality 0;
 - 2.4. change in the official foreign exchange rate established by the Bank of Russia <1>, 0;
 - 2.5. other reasons 0.

Chairman of the Management Board

E.V. Astanin

Chief Accountant, Accounting and Financial Reporting Director

I.E. Veremeenko

Drafted by

S.V. Vigovskaya

Tel.: (495) 234-48-29

27 March 2020

<1> Established in accordance with item 15 of Article 4 of the Federal Law "On the Central Bank of the Russian Federation".

UNOFFICIAL TRANSLATION

OKATO territory code	Banking financial statements Code of the credit institution (branch)	
	OKPO	Registration No. (/sequential No.)
45	42949474	3294

STATEMENT OF CHANGES IN EQUITY OF THE CREDIT ORGANISATION (published form) as at 1 January 2020

Full name or short name of the credit organization

Non-banking Credit Organization Joint Stock Company National Settlement Depository

Address (location) of the credit organization:

12 Spartakovskaya St., Moscow 105066

0

OKUD Form 0409810
Quarterly (annual)
RUB'000

Line	Item description	Note	Share capital	Treasury shares	Share premium	Fair value revaluation of securities available for sale decreased by deferred tax liability (increased by deferred tax asset)	Revaluation of property, equipment and intangible assets decreased by deferred tax liability	Increase (decrease) of liabilities (assets) on payment of long-term post-employment benefits on revaluation	Revaluation of hedging instruments	Reserve fund	Grant financing (property investments)	Change in fair value of the financial liability attributable to changes in the credit risk	Allowances for expected credit losses	Retained earnings (accumulated deficit)	Total equity
1	As at the beginning of the previous reporting year		1 180 675	-	-	-	-	-	-	177 101	-	-	-	9 842 388	11 200 164
2	Effect of changes in accounting policies		-	-	-	-	-	-	-	-	-	-	-	-	-
3	Effect of error correction		-	-	-	-	-	-	-	-	-	-	-	-	-
4	As at the beginning of the previous reporting year (adjusted)		1 180 675	-	-	-	-	-	-	177 101	-	-	-	9 842 388	11 200 164
5	Comprehensive income for the previous reporting period:		-	-	-	-	-	-	-	-	-	-	-	2 757 282	2 757 282
5.1	profit (loss)		-	-	-	-	-	-	-	-	-	-	-	2 757 282	2 757 282
5.2	other comprehensive income		-	-	-	-	-	-	-	-	-	-	-	-	-
6	Issue of shares:		-	-	-	-	-	-	-	-	-	-	-	-	-
6.1	nominal value		-	-	-	-	-	-	-	-	-	-	-	-	-
6.2	share premium		-	-	-	-	-	-	-	-	-	-	-	-	-
7	Treasury shares		-	-	-	-	-	-	-	-	-	-	-	-	-
7.1	acquisitions		-	-	-	-	-	-	-	-	-	-	-	-	-
7.2	disposals		-	-	-	-	-	-	-	-	-	-	-	-	-
8	Change in the value of property and equipment and intangible assets		-	-	-	-	-	-	-	-	-	-	-	-	-
9	Dividends declared and other profit distributions to shareholders (participants):	1.7	-	-	-	-	-	-	-	-	-	-	-	-2 689 521	-2 689 521
9.1	ordinary shares	1.7	-	-	-	-	-	-	-	-	-	-	-	-2 689 521	-2 689 521
9.2	preference shares		-	-	-	-	-	-	-	-	-	-	-	-	-
10	Other contributions made by participants (owners) and profit distributions to participants (owners)		-	-	-	-	-	-	-	-	-	-	-	-	-
11	Other movements		-	-	-	-	-	-	-	-	-	-	-	-	-
12	For the corresponding period of the previous year		1 180 675	-	-	-	-	-	-	177 101	-	-	-	9 910 149	11 267 925
13	As at the beginning of the reporting year		1 180 675	-	-	-	-	-	-	177 101	-	-	-	9 910 149	11 267 925
14	Effect of changes in accounting policies		-	-	-	-	-	-	-	-	-	-	-	-	-
15	Effect of error correction		-	-	-	-	-	-	-	-	-	-	-	-	-
16	As at the beginning of the reporting year (adjusted)		1 180 675	-	-	-	-	-	-	177 101	-	-	-	9 910 149	11 267 925
17	Comprehensive income for the reporting period:		-	-	-	61 254	-	-	-	-	-	-	5 405	3 707 094	3 773 753
17.1	profit (loss)		-	-	-	61 254	-	-	-	-	-	-	5 405	3 707 094	3 707 094
17.2	other comprehensive income		-	-	-	-	-	-	-	-	-	-	-	-	66 659
18	Issue of shares:		-	-	-	-	-	-	-	-	-	-	-	-	-
18.1	nominal value		-	-	-	-	-	-	-	-	-	-	-	-	-
18.2	share premium		-	-	-	-	-	-	-	-	-	-	-	-	-
19	Treasury shares		-	-	-	-	-	-	-	-	-	-	-	-	-
19.1	acquisitions		-	-	-	-	-	-	-	-	-	-	-	-	-
19.2	disposals		-	-	-	-	-	-	-	-	-	-	-	-	-
20	Change in the value of property and equipment and intangible assets		-	-	-	-	-	-	-	-	-	-	-	-	-
21	Dividends declared and other profit distributions to shareholders (participants):	1.7	-	-	-	-	-	-	-	-	-	-	-	-2 757 282	-2 757 282
21.1	ordinary shares	1.7	-	-	-	-	-	-	-	-	-	-	-	-2 757 282	-2 757 282
21.2	preference shares		-	-	-	-	-	-	-	-	-	-	-	-	-
22	Other contributions made by participants (owners) and profit distributions to participants (owners)		-	-	-	-	-	-	-	-	-	-	-	-	-
23	Other movements		-	-	-	-	-	-	-	-	-	-	-	-	-
24	For the reporting period		1 180 675	-	-	61 254	-	-	-	177 101	-	-	5 405	10 859 961	12 284 396

Chairman of the Management Board

E.V. Astanin

Chief Accountant, Accounting and Financial Reporting Director

I.E. Veremeenko

Drafted by

S.V. Vigovskaya

Tel.: (495) 234-48-29
27 March 2020

OKATO territory code	Code of the credit institution (branch)	
	OKPO	Registration No. (/sequential No.)
45	42949474	3294

INFORMATION ON STATUTORY RATIOS,
GEARING RATIO AND SHORT-TERM LIQUIDITY RATIO
(published form)
as at 1 January 2020

Full name or short name
of the credit organization
(parent credit
organization in the
banking group)

Non-banking Credit Organization Joint Stock Company National Settlement
Depository

Address (location) of the
credit organization (parent
credit organization in the
banking group)

12 Spartakovskaya St., Moscow 105066

OKUD Form 0409813
Quarterly (Annual)

Section 1. Information on core performance indicators of a credit organization (banking group)

Line	Item description	Note	Actual ratio				
			At the reporting date	At the date one quarter prior to the reporting date	At the date two quarters prior to the reporting date	At the date three quarters prior to the reporting date	At the date four quarters prior to the reporting date
1	2	3	4	5	6	7	8
EQUITY, RUB'000							
1	Common equity		-	-	-	-	-
1a	Common equity with the expected credit losses model fully applied excluding the effect of transitional measures		-	-	-	-	-
2	Core capital		-	-	-	-	-
2a	Core capital with the expected credit losses model fully applied		-	-	-	-	-
3	Equity (capital)		9 767 801	8 765 538	7 509 275	9 495 467	8 922 348
3a	Equity (capital) with the expected credit losses model fully applied		-	-	-	-	-
RISK-WEIGHTED ASSETS, RUB'000							
4	Risk-weighted assets		-	-	-	-	-
CAPITAL ADEQUACY RATIOS, %							
5	Common equity adequacy ratio R1.1 (R20.1)		-	-	-	-	-
5a	Common equity adequacy ratio with the expected credit losses model fully applied		-	-	-	-	-
6	Core capital adequacy ratio R1.2 (R20.2)		-	-	-	-	-
6a	Core capital adequacy ratio with the expected credit losses model fully applied		-	-	-	-	-
7	Equity (capital) adequacy ratio R1.0 (R1cc, R1.3, R20.0)		31,8	23,2	21,5	27,3	27,8
7a	Equity (capital) adequacy ratio with the expected credit losses model fully applied		-	-	-	-	-
BUFFERS TO COMMON EQUITY (as a percentage of risk-weighted assets), %							
8	Capital conservation buffer		-	-	-	-	-
9	Countercyclical buffer		-	-	-	-	-

Line	Item description	Note	Actual ratio														
			At the reporting date			At the date one quarter prior to the reporting date			At the date two quarters prior to the reporting date			At the date three quarters prior to the reporting date			At the date four quarters prior to the reporting date		
1	2	3	4			5			6			7			8		
10	Systemic importance buffer		-			-			-			-			-		
11	Buffers to equity (capital) adequacy ratios, total (p. 8 + p. 9 + p. 10)		-			-			-			-			-		
12	Common equity available for capital conservation buffers to capital adequacy ratios		-			-			-			-			-		
GEARING RATIO																	
13	Balance sheet assets and off-balance sheet risk claims for calculation of the gearing ratio (RUB'000)		-			-			-			-			-		
14	Gearing ratio of a bank (R1.4), a banking group (R20.4), %		-			-			-			-			-		
14a	Gearing ratio with the expected credit losses model fully applied, %		-			-			-			-			-		
SHORT-TERM LIQUIDITY RATIO																	
15	Highly-liquid assets, RUB'000		-			-			-			-			-		
16	Net expected cash outflow, RUB'000		-			-			-			-			-		
17	Short-term liquidity ratio R26 (R27), %		-			-			-			-			-		
STRUCTURAL LIQUIDITY RATIO (NET STABLE FUNDING RATIO)																	
18	Stable funding available, RUB'000		-			-			-			-			-		
19	Stable funding required, RUB'000		-			-			-			-			-		
20	Structural liquidity ratio (net stable funding ratio) R28 (R29), %		-			-			-			-			-		
RATIOS LIMITING CERTAIN RISKS, %																	
21	Instant liquidity ratio R2		-			-			-			-			-		
22	Current liquidity ratio R3		-			-			-			-			-		
23	Long-term liquidity ratio R4		-			-			-			-			-		
24	Maximum exposure to a borrower or a group of related borrowers R6 (R21)		Maximum value	Number of violations	Duration	Maximum value	Number of violations	Duration	Maximum value	Number of violations	Duration	Maximum value	Number of violations	Duration	Maximum value	Number of violations	Duration
			0,0	0	-	0,4	0	-	0,2	0	-	0,0	0	-	0,0	0	-
25	Maximum exposure to major credit risks R7 (R22)		-			-			-			-			-		
26	Aggregate exposure per insiders R10.1		0,0			0,0			0,0			0,0			0,0		
27	Equity (capital) used for acquisition of shares (stakes) in other legal entities R12 (R23)		0,0			0,0			0,0			0,0			0,0		
28	Maximum risk per a bank-related entity (group of bank-related entities) (N25)		Maximum value	Number of violations	Duration	Maximum value	Number of violations	Duration	Maximum value	Number of violations	Duration	Maximum value	Number of violations	Duration	Maximum value	Number of violations	Duration
			0,0	0	-	0,0	0	-	0,0	0	-	0,0	0	-	0,0	0	-
29	Adequacy ratio of aggregate resources of a central counterparty R2cc		-			-			-			-			-		
30	Adequacy ratio of individual clearing collateral of a central counterparty R3cc		-			-			-			-			-		
31	Central counterparty liquidity ratio R4cc		-			-			-			-			-		
32	Maximum concentration exposure R5cc		-			-			-			-			-		

Line	Item description	Note	Actual ratio				
			At the reporting date	At the date one quarter prior to the reporting date	At the date two quarters prior to the reporting date	At the date three quarters prior to the reporting date	At the date four quarters prior to the reporting date
1	2	3	4	5	6	7	8
33	Liquidity ratio of non-banking credit organization entitled to cash transfers without opening bank accounts and other related banking transactions N15.1 ²		104,2	103,0	103,4	105,1	105,4
34	Maximum aggregate loans to customers participating in settlements to complete the settlements R16		0,0	0,0	0,0	0,0	0,0
35	Normative value of loans granted by NSCO on its behalf and at its expense to borrowers, other than settlement participants R16.1		0,0	0,0	0,0	0,0	0,0
36	Maximum exposure to bill liabilities of non-banking settlement credit organizations R16.2		0,0	0,0	0,0	0,0	0,0
37	Minimum ratio of mortgage collateral to the amount of mortgage covered issue of bonds R18		-	-	-	-	-

Chairman of the Management Board

E.V. Astanin

Chief Accountant, Accounting and Financial Reporting Director

I.E. Veremeenko

Drafted by

S.V. Vigovskaya

Tel.: (495) 234-48-29

27 March 2020

²The line item comprises the ratio R15 (NSCO's current liquidity ratio) calculated as per Instruction of the Bank of Russia No. 129-I dated 26 April 2006 "On Banking Operations and Other Transactions by Non-Banking Settlement Credit Organizations, Required Ratios for Non-Banking Settlement Credit Organizations and the Specifics of the Bank of Russia's Supervision of their Compliance".

OKATO territory code	Code of the credit institution (branch)	
	OKPO	Registration No. (/sequential No.)
45	42949474	3294

STATEMENT OF CASH FLOWS
(published form)
as at 1 January 2020

Full name or short name
of the credit organization

Non-banking Credit Organization Joint Stock Company National Settlement
Depository

Address (location) of the
credit organization:

12 Spartakovskaya St., Moscow 105066

OKUD Form 0409814
Quarterly (annual)

Line	Item description	Note	Cash flows for the current reporting period, RUB'000	Cash flows for the corresponding reporting period of the previous year, RUB'000
1	2	3	4	5
1	Net cash generated from (used in) operating activities			
1.1	Cash received from (used in) operating activities before changes in operating assets and liabilities, total, including:		4 948 803	4 439 763
1.1.1	interest received		773 535	1 819 925
1.1.2	interest paid		-210 823	-148 617
1.1.3	fee and commission received		5 958 232	5 173 179
1.1.4	fee and commission paid		-509 038	-533 906
1.1.5	net income on financial assets at fair value through profit or loss, through other comprehensive income		2 326 399	31 614
1.1.6	net gain on operations with securities at amortized cost		0	0
1.1.7	net gain on foreign currency transactions		8 980	1 133 597
1.1.8	other operating income		49 104	44 225
1.1.9	operating expenses		-2 419 970	-2 181 519
1.1.10	income tax expense (recovery)		-1 027 616	-898 735
1.2	Increase (decrease) of net cash flows from operating assets and liabilities, total, including:		65 199 450	-18 672 729
1.2.1	net increase (decrease) in minimum reserve deposits with the Bank of Russia		0	0
1.2.2	net increase (decrease) in financial liabilities at fair value through profit or loss		-144 290	4 405 780
1.2.3	net increase (decrease) in loans and loan equivalents		0	0
1.2.4	net increase (decrease) in other assets		7 795	-1 475 993
1.2.5	net increase (decrease) in loans, deposits and other amounts due to the Bank of Russia		99 817	54
1.2.6	net increase (decrease) in amounts due to other credit organizations		71 044 728	-29 382 223
1.2.7	net increase (decrease) in customer accounts (non-credit organizations)		6 604 656	-13 262 030
1.2.8	net increase (decrease) in financial liabilities at fair value through profit or loss		0	0
1.2.9	net increase (decrease) in debt securities issued		0	0
1.2.10	net increase (decrease) in other liabilities		-12 413 256	21 041 683
1.3	Total (sum of lines 1.1 to 1.2)		70 148 253	-14 232 966
2	Net cash generated from (used in) investing activities			
2.1	Purchase of financial assets at fair value through other comprehensive income		-17 901 420	0
2.2	Proceeds from sale and redemption of financial assets at fair value through other comprehensive income		10 707 194	0
2.3	Acquisition of securities at amortized cost		0	0
2.4	Proceeds from redemption of securities at amortized cost		0	0
2.5	Acquisition of property and equipment, intangible assets and inventories		-779 405	-733 375

UNOFFICIAL TRANSLATION

Line	Item description	Note	Cash flows for the current reporting period, RUB'000	Cash flows for the corresponding reporting period of the previous year, RUB'000
1	2	3	4	5
2.6	Proceeds from sale of property and equipment, intangible assets and inventories		0	1 358
2.7	Dividends received		0	0
2.8	Total (sum of lines 2.1 to 2.7)		-7 973 631	-732 017
3	Net cash generated by (used in) financing activities			
3.1	Contributions of shareholders (participants) to share capital		0	0
3.2	Purchase of treasury shares		0	0
3.3	Sale of treasury shares		0	0
3.4	Dividends paid		-2 757 282	-2 689 523
3.5	Total (sum of lines 3.1 to 3.4)		-2 757 282	-2 689 523
4	Effect of changes in the Bank of Russia's official foreign exchange rates on cash and cash equivalents		-11 707 495	12 298 024
5	Increase (decrease) in cash and cash equivalents		47 709 845	-5 356 482
5.1	Cash and cash equivalents at the beginning of the reporting year	3.28	103 224 456	108 580 938
5.2	Cash and cash equivalents at the end of the reporting period	3.28	150 934 301	103 224 456

Chairman of the Management Board

E.V. Astanin

Chief Accountant, Accounting and Financial Reporting Director

I.E. Veremeenko

Drafted by

S.V. Vigovskaya

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27 March 2020

**EXPLANATORY NOTES
TO THE ANNUAL STATUTORY FINANCIAL STATEMENTS of
Non-banking Credit Organization
Joint Stock Company
National Settlement Depository
for the year 2019**

INTRODUCTION

These annual financial statements were prepared in accordance with the Bank of Russia's Directive No. 3054-U of 4 September 2013 "On the Preparation of Annual Financial Statements by Credit Organizations" (hereinafter, "Directive No. 3054-U") by Non-banking Credit Organization Joint Stock Company National Settlement Depository (hereinafter, "NSD") in accordance with the effective Russian accounting and financial reporting standards.

The explanatory notes form an integral part of NSD's annual financial statements for 2019, as required by the Russian Accounting Standards (hereinafter, "RAS"), and were prepared in accordance with the Bank of Russia's Directive No. 4983-U of 27 November 2018 "On the Format, Procedure and Timelines for the Disclosure by Credit Organizations of their Business Activities" (hereinafter, "Directive No. 4983-U").

These Explanatory Notes are based on the statutory financial reporting forms compiled in accordance with the Bank of Russia's Directive No. 4927-U dated 8 October 2018 "On the List, Format and Procedure for the Preparation and Filing by Credit Organizations of Statutory Financial Statements to the Central Bank of the Russian Federation (hereinafter, "Directive No. 4927-U").

The complete set of annual financial statements (including explanatory notes) is available on NSD's website (www.nsd.ru).

These annual financial statements have been authorized for issue by NSD's management on 27 March 2020.

1. OVERVIEW OF BUSINESS

1.1. General information

NSD is a central securities depository of the Russian Federation providing depository, settlement and related services to participants of the financial market.

1.2. Address

Location: 12 Spartakovskaya St., Moscow 105066.

NSD address: 12 Spartakovskaya St., Moscow 105066.

NSD has no affiliates or representative offices in the Russian Federation or abroad.

Pursuant to the contract between NSD and PJSC Moscow Exchange MICEX-RTS (hereinafter, the "Moscow Exchange"), NSD also collaborates with its customers through the Moscow Exchange branches in St. Petersburg, Nizhny Novgorod, Novosibirsk, Ekaterinburg and Rostov-on-Don and the Moscow Exchange representative office in Samara.

1.3. Principal activities

NSD performs the following key functions:

- The function of the central securities depository exercised pursuant to the Russian Federal Service for the Financial Markets Order No. 12-2761/PZ-I of 6 November 2012 in accordance with Russian Federal Law No. 414-FZ of 7 December 2011 "On the Central Securities Depository";
- The function of a settlement depository exercised under license for depository activities No. 045-12042-000100 issued by the Russian Federal Service for the Financial Markets on 19 February 2009;
- The function of a non-banking settlement credit organization exercised under banking license No. 3294 issued by the Bank of Russia on 4 August 2016;
- The function of the systemically important national payment system operator exercised under the Bank of Russia's certificate No. 0014 of 24 November 2016;
- The function of a clearing organization exercised under clearing license No. 045-00004-000010 issued by the Russian Federal Service for Financial Markets on 20 December 2012;
- The function of a repository exercised under repository license No. 045-01 issued by the Bank of Russia on 28 December 2016;
- The function of the National Numbering Agency in Russia (since 15 November 1999) and Substitute Numbering Agency for the CIS countries (since 2007) based on NSD's membership in the international Association of National Numbering Agencies (ANNA) and the resolution of its general meeting, respectively.
- The function of the Local Operating Unit that assigns international identity LEI codes to legal entities, accredited on 5 January 2018 by the decision of the Global Legal Entity Identifier Foundation authorized by the Regulatory Oversight Committee.

Acting as a professional participant in the securities market, NSD provides:

- Depository services to parties listed in Art. 25 of Federal Law "On the Central Securities Depository" to facilitate them and their clients carrying out operations both in the Russian and foreign capital markets, including opening securities accounts, acceptance and withdrawals of securities from record-keeping/safe-keeping, transfers between securities accounts, charge over securities, certification of securities;
- Cash settlements in Russian rubles and foreign currency on market participants' transactions in all markets of the Moscow Exchange and Joint Stock Company St. Petersburg Currency Exchange (hereinafter, "SPCEX"), and in the OTC market;
- Transparency of OTC transactions made on master agreement terms through maintaining the register of this type of transactions;
- Assigning the international ISIN and CFI codes to securities and other financial instruments of Russian issuers as well as financial instruments issued and registered in Russia;
- Assigning the international LEI (Legal Entity Identifier) codes to legal entities and actualization of data within the global system of legal entities identification;
- Cash settlement services (corporate activities, exercising securities rights, participation in shareholders' meetings);
- OTC settlements (transactions in registers of registered shareholders, securities settlements);
- Clearing services (DVP settlements);
- Securities placement services;
- Information services on securities handled by NSD and related organizations - issuers, registrars, authorized depositories, on schedules of corporate actions, issuers' events and communications;
- Collateralization of repurchase agreements with the Bank of Russia and Federal Treasury.

NSD also performs the following functions:

- Authorized settlement center on deposits made by the Bank of Russia with credit organizations using the Electronic Communications Networks of Moscow Exchange;

As well as:

- Provides a set of services for connecting financial market participants to the Society for Worldwide Interbank Financial Telecommunication ("SWIFT") via its own terminal;
- Provides services for installation and support of the Internet Bank-Client remote account management system.

The license issued by the Bank of Russia does not allow opening bank accounts and taking deposits from individuals. Therefore, NSD is not a member of the mandatory deposit insurance system.

1.4. Participation in banking groups and holdings

NSD is a member of the banking holding (hereinafter, the "Holding") with Public Joint-Stock Company "Moscow Exchange MICEX-RTS" being its parent company. The Holding was established on 21 August 2013, and includes the following companies:

Description	Principal activity	1 January 2020	1 January 2019
		Held by PJSC "Moscow Exchange MICEX-RTS", directly and indirectly, %	Held by PJSC "Moscow Exchange MICEX-RTS", directly and indirectly, %
Non-banking Credit Organization - central counterparty National Clearing Center (Joint Stock Company) (previously - National Clearing Center JSCB)	Clearing services	100	100
Joint Stock Company National Commodity Exchange	Commodities exchange activities	65,08	65,08
Joint Stock Company Eurasian Trade System Commodity Exchange (Kazakhstan)	Commodities exchange activities	60,82	60,82
Limited Liability Company MICEX Finance	Financing activities	100	100
Limited Liability Company MB Innovatsii (Moscow Exchange Innovations)	Financial technology startups, financing activities	100	100
Limited Liability Company MOEX Information Security (Moscow Exchange Information Security)	Information security services	100	100

As at 31 December 2019, Russia was significant for the Moscow Exchange's business. NSD is a member of the Moscow Exchange Group, which is defined in accordance with the International Financial Reporting Standards (hereinafter, "IFRS"). The Moscow Exchange Group prepares the consolidated financial statements in accordance with the IFRS and presents it on its official website (moex.com).

NDS's share capital disclosures are presented in Note 3.13 hereof.

1.5. Ratings

NSD is not rated by independent rating agencies.

1.6. Key financial highlights

NSD's profit for 2019 totaled RUB 3 707 094 thousand, going up 34.4% as compared with RUB 2 757 282 thousand in 2018.

The growth was primarily driven by an increase in fee and commission income and net gain on financial instruments.

In 2019, fee and commission income increased by RUB 745 256 thousand (14.1%) up to RUB 6 038 267 thousand making up the largest portion of NSD's total income (61.6% versus 64.5% in 2018). Fee and commission income mainly comprised income from the custody of assets, which rises with the growth in the volume of assets in custody.

Interest income decreased by RUB 462 130 thousand or 27.1%, making up 12.7% of NSD's total income (2018: 20.8%), while income from investments in bonds issued by the Russian Ministry of Finance (OFZ) and coupon bonds issued by the Bank of Russia decreased by RUB 277 223 thousand, accounting for 11.9% of NSD's total income (2018: 17.5%); income on balances due from credit organizations, non-resident banks and the Bank of Russia declined by RUB 184 907 thousand, making up 0.8% of NSD's total income as compared with 3.2% in 2018. This was attributable to the decrease of investments in interest bearing assets and the decline in interest rates through 2019.

Net comprehensive financial result from currency swaps increased by RUB 1 097 603 thousand (619.4%) to RUB 1 274 795 thousand (2018: RUB 177 192 thousand). The growth was due to the increase in transactions with a related party.

The increase in the total gain on financial instruments was largely due to a significant increase in gain on currency swaps.

In 2019, the largest share of NSD's total expenses was attributable to operating expenses (53.5% versus 53.6% in 2018), which increased by RUB 336 996 thousand or 11.5%. A breakdown of operating expenses is presented in Note 3.25 of these Explanatory Notes. The significant portion of expenses comprised tax expenses (16.6%, 2018: 14.0%) and fee and commission expense (8.4%, 2018: 10.1%).

Net loss on foreign currency translation (17.2% as compared with 18.2% in 2018) generally represents a portion of the comprehensive financial result from currency swaps.

1.7. Dividends

NSD's Annual General Meeting held on 30 May 2019 resolved to distribute the net profit for 2018 totaling RUB 2 757 282 thousand as dividends (RUB 2 335,34 per ordinary registered share before withholding tax). Persons entitled to receive dividends were determined on June 10, 2019. Dividends were paid in full in June 2019.

In 2018, net profit for 2017 totaling RUB 2 689 521 thousand was distributed as dividends (RUB 2 277,95 per ordinary registered share before withholding tax).

1.8. Operating environment

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in the Russian Federation may change frequently and are subject to arbitrary interpretations. The future economic direction of the Russian Federation is heavily influenced by the economic, fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. This hampered Russian companies' access to international capital markets.

Because Russia produces and exports large volumes of oil and gas, Russia's economy is particularly sensitive to the price of oil and gas on the world market. In March 2020, oil prices declined by more than 40%, which resulted in depreciation of the Russian Ruble against major foreign currencies.

The impact of these developments on the NSD's future performance and financial position may be significant.

In addition, at the beginning of 2020 the world saw an outbreak of COVID-19, which resulted in the World Health Organization (the "WHO") announcing a pandemic in March 2020. COVID-19 prevention efforts taken by many countries lead to significant operating and financial straits for many businesses and have a significant impact on the global economy and international financial markets. The effect of COVID-19 on NSD's operations is largely dependent on the duration of the pandemic and sensitivity of the world and Russian economy to the said prevention measures.

1.9. Litigations

From time to time, NSD has been, and continues to be, subject to claims and legal proceedings relating to its business activities. Management believes that no material losses will be incurred by the NSD as a result of such claims and accordingly no provisions have been made in these financial statements.

1.10. Taxation

A substantial part of the activities of NSD is carried out in the Russian Federation. Some provisions of the Russian tax, currency and customs legislation as at present in force are defined not clearly enough, which frequently leads to different interpretations (that can be applied to the past legal matters), selective and inconsistent application and also in some cases to changes that are hard to predict.

The NSD's management interpretation of such legislation as applied to its operations and activity may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation and application of this legislation and assessments. It is therefore possible that transactions and activities of the NSD that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities. Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

2. BRIEF DESCRIPTION OF BASIS FOR PREPARATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

The annual financial statements are prepared for a calendar year - from 1 January to 31 December inclusive. The annual financial statements are prepared on the basis of accounting records kept by NSD in accordance with the Federal Law No. 402-FZ dated 6 December 2011 On Accounting, the Bank of Russia Regulation No. 579-P dated 27 February 2017 On the Chart of Accounts for Credit Organizations and the Procedure of its Application (hereinafter, "Regulation No. 579-P"), the Bank of Russia Regulation No. 446-P dated 22 December 2017 On the Procedure for Definition of Income, Expenses and the Other Comprehensive Income of Credit Organizations, other regulations of the Bank of Russia, and NSD's accounting policies.

The annual financial statements are prepared considering the events after the reporting date.

Any differences between the annual financial statements and synthetic accounting records for the reporting year considering the events after the reporting date are not permitted.

These annual financial statements are presented in thousands of Russian rubles ("RUB thousand"), unless otherwise indicated.

All the assets and liabilities denominated in foreign currency have been translated into rubles at the official rate of the respective foreign currency as established by the Bank of Russia at the reporting date.

2.2. Significant accounting policies

NSD's accounting system is based on the following basic concepts:

2.2.1. Going concern

NSD keeps accounting records continuously from the date of state registration of a legal entity. In the foreseeable future:

- NSD continues to perform its statutory activities in accordance with the Charter to develop business, generate profit and increase capital;
- NSD does not intend to undertake a transaction on adverse terms, which may give rise to damages or capital loss.

2.2.2. Accrual basis

NSD keeps its accounting records on an accrual basis. This involves:

- Recognizing financial results of operations (income and expenses) as they are performed, rather than as respective cash (or cash equivalents) is received or paid;
- Recognizing income and expenses in periods to which they relate based on the economic substance of transactions (events) for accounting purposes.

2.2.3. Consistency and comparability

Based on Russian accounting rules, NSD consistently applies the same accounting methods and methodologies following the principles of standardization, unification and long-term applicability of accounting procedures, excluding significant changes in its business activities or regulatory changes applicable to NSD's business activities.

The consistency concept does not prevent from implementing advanced accounting methods, which could have a favorable impact on NSD's operations. In this case, the accounting data could be compared based on the type of transactions and reporting periods.

According to this concept, any new accounting methods introduced during the financial year should only apply to the operations performed as soon as the respective accounting methods are implemented. Thus, assets, liabilities, equity and the applicable accounting procedures may be adjusted only subject to effective Russian accounting rules.

2.2.4. Prudence and neutrality

NSD applies a reasonable level of prudence in making estimates for recording transactions or events of uncertain nature.

Assets and liabilities, income and expenses should be assessed and recorded in the current reporting period in order not to transfer the existing potentially threatening risks to the next reporting periods.

2.2.5. Timely recognition of operations

Operations are recorded on a daily basis at the date of such operations (the date when primary documents are received), unless otherwise indicated in Russian accounting rules and regulations of the Bank of Russia.

If there are any differences between the date of operation established by the agreement (contract) and the date of recognition of such operation (primary documents processing), the financial result and other qualitative characteristics of the operation should be determined based on terms and conditions effective as at the settlement date.

2.2.6. Separate recognition of assets and liabilities

NSD keeps its asset and liability accounts separately and reports them on a gross basis.

Closing balances on opposite accounts are recorded on corresponding current opposite accounts at the end of business day.

2.2.7. Balance continuity

At the beginning of business day (current reporting period) opening balances on open current accounts should be equal to closing balances on corresponding accounts at the end of the previous business day (previous reporting period).

2.2.8. Substance over form

Operations carried out by NSD should be recognized in accordance with their economic substance, even if it does not coincide with the legal form and wording of agreements, contracts and other legal documents.

This concept allows to improve reliability, completeness and understandability of NSD's financial statements for users.

2.2.9. Transparency, understandability and reliability

The accounting and financial reporting process should be made available and understandable for all stakeholders based on the assumption that they have adequate skills to understand, assess and use the information obtained.

NSD avoids ambiguity in the representation of its own position for accounting and reporting purposes irrespective of the complexity and structure of the financial information to be disclosed.

All operations conducted by NSD and events significant for its business activities affecting assets, liabilities and equity of NSD are subject to disclosure for accounting purposes, without any gaps and eliminations.

The accounting process should be carried out observing the balance between benefits from the information disclosure and expenses incurred by NSD for collecting and processing such information. If the information does not have any significant impact on NSD's financial statements or if the disclosure of such information is of no interest to users, such information may be omitted or recorded in the aggregate (simplified form).

NSD should ensure the reliability of the accounting process and the absence of any errors, misstatements or judgments which could mislead users of the financial statements.

2.3. Assets and liabilities

Assets are initially recorded at historical cost. Subsequently, in accordance with Regulation 579-P and other regulations of the Bank of Russia, NSD's assets are recognized at the current (fair) value or at cost by creating allowance for losses. The results of measurement (remeasurement) of assets are recognized using additional accounts that adjust the historical cost of the asset recognized in the main account or contain information on the current (fair) valuation (revaluation) of assets recognized in the main account (the "contra account"). Contra accounts are used to decrease or increase the value of assets after remeasurement at the current (fair) value, make provisions where there are risks of losses and depreciate and amortize assets in the process of operation.

Liabilities are accounted for in accordance with the applicable contractual terms and conditions. In cases stipulated by Regulation No. 579-P or other regulations of the Bank of Russia, liabilities are also remeasured at the current (fair) value.

These provisions do not apply to the revaluation of assets and liabilities denominated in foreign currency. Transactions in foreign currency are accounted for in the same second tier accounts which are used to account for transactions in rubles, by opening individual accounts in the appropriate currencies. Analytical accounting records in foreign currency are translated into rubles (revaluation of funds in foreign currency) by multiplying the amount of foreign currency by the official exchange rate against the ruble set by the Bank of Russia. Income and expenses are translated in the ruble equivalent at the official rate at the date of transaction; balances on foreign currency accounts are remeasured at the official rate of the currency at the date of remeasurement on a daily basis.

Below are the official foreign exchange rates at year-end used by NSD in the preparation of the annual financial statements:

	<u>31.12.2019</u>	<u>31.12.2018</u>
RUB/USD	61,9057	69,4706
RUB/EUR	69,3406	79,4605

2.4. Financial instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. In July 2014, IASB issued a finalized version of IFRS 9. The principal changes cover a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

The Bank of Russia has introduced guidelines for credit institutions to clarify the application of IFRS 9 *Financial Instruments*. The guidelines come into effect on 1 January 2019. For loss allowances for expected credit losses, which must be determined in accordance with IFRS 9, the Bank of Russia requires that credit institutions first recognize allowances for possible losses measured in accordance with prudential requirements, and then reduce this amount to the amount of loss allowances for expected credit losses, using adjustment accounts corresponding to the relevant income and expense accounts.

2.4.1. Interest income and expense

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at fair value through profit or loss (FVTPL) are recognized in interest and other finance income in the profit or loss account using the effective interest method.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognized in profit or loss at initial recognition.

The interest income is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortized cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortized cost of financial liabilities. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortized cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)). For financial assets originated or purchased credit-impaired (POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

2.4.2. Financial assets

Financial assets, other than those at fair value through profit or loss (FVTPL), are initially measured at fair value, plus transaction costs. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognized immediately in profit or loss.

All recognized financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically:

- A financial asset is measured at fair value if it meets the following criteria:
 - (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
 - (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.
- A financial asset is measured at fair value through other comprehensive income (FVTOCI) if it meets the following criteria:
 - (a) The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
 - (b) The contractual terms of the financial asset give rise to cash flows that are SPPI;
- All other debt instruments (such as debt instruments that are managed on a fair value basis or held for sale) and equity instruments are subsequently measured at FVTOCI.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. NSD's determines its business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The business model used by NSD does not depend on management's intentions for an individual instrument. This means, the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

NSD may use more than one business model for managing its financial instruments, which reflect how NSD manages its financial assets in order to generate cash flows. The NSD's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

When making the business model assessment, NSD considers all the relevant information available. However, this assessment is not performed on the basis of scenarios that NSD does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. NSD takes into account all relevant evidence available such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel; and
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and

At initial recognition of a financial asset, NSD determines whether newly recognized financial assets are part of an existing business model or whether they reflect the commencement of a new business model. NSD reassess its business models each reporting period to determine whether the business models have changed since the preceding period.

2.4.3. Debt instruments at amortized cost or at FVTOCI

NSD assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the NSD's business model for managing the asset.

For an asset to be classified and measured at amortized cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. However that principal amount may change over the life of the financial asset (e.g., if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

When a debt instrument measured at FVTOCI is derecognized, the cumulative gain/loss previously recognized in OCI is reclassified from equity to profit or loss.

Debt instruments that are subsequently measured at amortized cost or at FVTOCI are subject to impairment.

2.4.4. Financial assets at FVTPL

Financial assets at FVTPL are:

- Assets with contractual cash flows that are not SPPI; or/and
- Assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell.

NSD did not classify assets at its own discretion as at FVTPL, without the right of their subsequent reclassification.

The FVTPL assets are measured at fair value, with any gains/losses arising on remeasurement recognized in profit or loss.

2.4.5. Reclassifications

If the business model under which NSD holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the NSD's financial assets. During the current financial year and previous accounting period there was no change in the business model under which NSD holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are covered below in Note 2.4.10.

2.4.6. Impairment

NSD recognizes loss allowances for expected credit losses (ECLs) on the following financial instruments that are not measured at FVTPL:

- Due from credit organizations;
- Cash and cash equivalents;
- Debt securities;
- Other financial assets with credit exposure.

No allowance is recognized on equity instruments and financial assets related to intragroup transactions.

ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

A significant increase in credit risk is defined below.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to NSD under the contract and the cash flows that NSD expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

NSD measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics.

2.4.7. Definition of default

The definition of default is critical to the determination of ECLs. The definition of default is used in measuring the amount of ECLs and in determining of whether the loss allowance is based on 12-month or lifetime ECLs, as default is a component of the probability of default (PD), which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

NSD considers the following as constituting an event of default:

- The borrower was declared insolvent (bankrupt);
- A third-party has filed a lawsuit to declare the borrower insolvent (bankrupt), and the court has accepted the lawsuit and initiated proceedings;
- The borrower is past due more than 90 days on any credit obligation to NSD; or
- The borrower's license has been revoked.

2.4.8. Significant increase in credit risk

NSD monitors all financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, NSD will measure the loss allowance based on lifetime rather than 12-month ECLs.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, NSD compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognized. In making this assessment, NSD considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

If payment on the asset is past due for more than 30 days and at least half of the counterparty's credit ratings assigned by international rating agencies are downgraded or its internal rating is downgraded by 3 or more grades since the initial recognition, NSD considers a significant increase in credit risk to have occurred and the asset moves to Stage, i.e. the allowance is based on lifetime ECLs.

2.4.9. Probability of default (PD)

PD is measured at initial recognition and at subsequent reporting dates using multiple economic scenarios. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

NSD determines PD based on:

- Available data from international rating agencies;
- Internal ratings (where international ratings are not available).

NSD assigns an internal rating to its counterparties on the basis of their credit quality, using relevant quantitative and qualitative information. The historical PD is determined on the basis of the migration matrix, which aligns internal ratings with international ratings for the counterparties that are not rated by international agencies.

2.4.10. Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

When a financial asset is modified NSD assesses whether this modification results in derecognition. In accordance with NSD's policy a modification results in derecognition when it gives rise to substantially different terms. To determine whether the modified terms are substantially different from the original contractual terms, NSD considers the following:

- Contractual cash flows after modification are no longer SPPI;
- Change in currency; or
- Change of counterparty;
- Change in interest rate; and
- Maturity date.

If all the above does not directly evidence a significant modification, NSD performs a quantitative assessment to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, discounting both amounts at the original effective interest rate. If the difference in present value is greater than 10% NSD deems the arrangement is substantially different leading to derecognition.

In the case where the financial asset is derecognized the loss allowance for ECLs is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECLs except where the new loan is considered to be originated- credit impaired. NSD monitors credit risk of modified financial assets by evaluating qualitative and quantitative information.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, NSD determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- The remaining lifetime PD at the reporting date based on the modified terms.

Where a modification does not lead to derecognition NSD calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). When NSD measures ECL for the modified asset, the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

NSD derecognizes a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If NSD neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, it recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If NSD retains substantially all the risks and rewards of ownership of a transferred financial asset, it continues to recognize the financial asset.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognized in OCI and accumulated in equity is recognized in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when NSD retains an option to repurchase part of a transferred asset), NSD allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain/loss allocated to it that had been recognized in OCI is recognized in profit or loss. A cumulative gain/loss that had been recognized in OCI is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts. This does not apply to equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss.

2.4.11. Write off of financial assets

Loans and debt securities are written off when NSD has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when NSD determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. Recoveries resulting from NSD's enforcement activities create impairment gains.

2.4.12. Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term;
- On initial recognition it is part of a portfolio of identified financial instruments that NSD manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with NSD's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire hybrid (combined) contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognized in profit or loss to the extent that they are not part of a designated hedging relationship.

2.4.13. Other financial liabilities

Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. For more information of the effective interest method used refer to the "Interest income and expense" section above.

2.4.14. Derecognition of financial liabilities

NSD derecognises financial liabilities when, and only when, its obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When NSD exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, NSD accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If modification is not significant, the difference between: (1) the carrying value of the liability before modification; and (2) the present value of the cash flows after the modification is charged to profit or loss as other income or expenses.

2.5. Property and equipment

In accordance with the Internal Standard of NSD, property and equipment include material items used by NSD to provide services as well as for administrative purposes within the period of more than 12 months and not intended for subsequent resale provided that all of the following conditions are met:

- An item is able to bring economic benefits in the future;
- The historical cost of the item can be measured reliably;
- A materiality criteria is met: the historical cost of the item exceeds RUB 100 thousand (net of VAT).

The historical cost of property and equipment acquired for consideration is measured in the amount of actual costs incurred by NSD for construction, development and acquisition of the property and equipment item, including VAT.

If a property and equipment item is purchased on a deferred payment basis, its historical cost is recognized as the cost of its acquisition on immediate payment terms. The difference between the amount to be paid under the agreement and the cost of its acquisition on immediate payment terms is recognized as interest expense over the deferred payment period in the manner prescribed for such expenses.

The historical cost of property and equipment items received by NSD under a deed of gift is measured at their fair value as at the recognition date.

The historical cost of property and equipment received by NSD under an exchange agreement is measured at the fair value of an asset received provided that it can be measured reliably by NSD. If the fair value of the asset received cannot be measured reliably, the historical cost of the property and equipment item is based on the cost of the transferred asset/assets recorded in relevant accounts of NSD.

The historical cost of property and equipment items contributed to the share capital of NSD is measured at the cost of such items determined in accordance with the procedure established by the RF legislation and regulations of the Bank of Russia.

For the purpose of subsequent measurement of property and equipment for homogeneous property and equipment groups, NSD can apply the following accounting models:

- At revalued cost;
- At historical cost less accumulated depreciation and impairment losses.

In the reporting period, NSD recognized all homogeneous property and equipment groups at historical cost less accumulated depreciation and impairment losses.

Irrespective of the accounting model, property and equipment items are subject to impairment reviews as at the end of the reporting year and upon the occurrence of events that have a significant impact on their cost estimate in accordance with IAS 36 Impairment of Assets and methodical recommendations On Testing by Credit Organizations of Assets Subject to Impairment Review (Letter of the Bank of Russia No. 265-T dated 30 December 2013).

A property and equipment item is impaired if its carrying value exceeds its recoverable amount. The Organization assesses property and equipment items for indicators of impairment as at the end of each reporting period. If impairment indicators are identified, the Organization measures the recoverable value of such property and equipment items. The result of the impairment test including the assessment of the recoverable value is recorded as part of a professional judgment.

Impairment losses on property and equipment are recognized as identified.

Depreciation is the recognition of the depreciable amount of a property and equipment item in expenses over its useful life on a systematic basis, where the depreciable amount is the cost or revalued cost of the property and equipment item less the estimated residual value.

The estimated residual value of the property and equipment item is the amount that NSD would receive from the disposal of the item less costs of disposal, if the item were already of the age and in the condition expected at the end of its useful life.

NSD reviews the estimated residual value, estimated useful lives and depreciation methods for property and equipment items at the end of each reporting year.

NSD derecognizes property and equipment items from the adoption of the relevant decision on their derecognition and (or) sale and if they are unable to generate future economic benefits (income) to the Organization.

2.6. Intangible assets

Intangible assets are items that meet all of the following conditions:

- An item is able to generate future economic benefits to NSD and is intended for delivery of work, services or for managerial purposes;
- NSD has the right to obtain economic benefits from the use of the item in the future. The right can be confirmed by duly executed documents supporting the existence of the asset and the right of NSD to the results of intellectual activity and means of individualization;
- The access of other persons to economic benefits from the use of the item (controlled by NSD) is restricted;
- The item can be identified (identifiable and separable from other assets).

Intangible assets are recorded at cost measured at the date of initial recognition.

The historical cost of intangible assets is defined as a monetary amount that is equal to a payment in monetary or other form, or to an amount payable, that was paid or accrued by NSD when acquiring an intangible asset, creating an intangible asset and ensuring conditions for the use of an intangible asset for an intended purpose.

Intangible assets are subject to annual impairment reviews. Impairment losses on intangible assets are recognized as identified.

The cost of an intangible asset with a finite useful life is amortized on a systematic basis over the life of the asset. Useful lives of intangible assets are defined by NSD at initial recognition based on:

- The duration of the right of NSD to the results of intellectual activity or to means of differentiation as well as on the period of control over the intangible asset;
- An estimated period during which NSD expects an inflow of economic benefits from the use of intangible asset.

NSD reviews the estimated useful lives and amortization methods for intangible assets at the end of each reporting year.

When determining the useful life of its intangible assets, NSD factors in the expected use of the asset, normal life cycle, obsolescence, etc.

Based on an analysis of the current useful lives of its intangible assets conducted on 1 January 2018, NSD adjusted its estimates for their remaining useful lives. Adjustments were made for certain types of software and licenses.

In the reporting period, NSD recognized all intangible assets at historical cost less accumulated amortization and impairment losses and applied the straight-line amortization method.

NSD should cease to recognize intangible assets which are disposed of or are unable to generate future economic benefits (income) from the adoption of the relevant decision on the derecognition and (or) sale of the intangible assets.

Amortization was recognized over the following useful lives (years) in the reporting and previous periods:

	<u>2019</u>	<u>2018</u>
Buildings	49	49
Other fixed assets	3-20	3-20
Intangible assets	1-10	2-10

2.7. Income and expenses

NSD recognizes the income and expenses on accrual basis. The accrual basis means that the financial results of operations (income and expenses) are recorded in the accounting records when they are made, and not upon receipt or payment of cash (cash equivalents).

Income and expenses are recognized in the period in which they arise.

Income and expenses are measured and recorded in a reasonable and prudent manner. In this case, NSD involves a greater commitment to the recognition in accounting of costs, than possible incomes.

Income and expenses from transactions are determined regardless of the legal documentation, monetary or non-monetary form (methods) of their execution.

Income is the increase in economic benefits, leading to an increase in own funds (capital) and taking place in the form of:

- Inflow of assets;
- Increase in the value of assets as a result of revaluation (excluding revaluation of property and equipment, intangible assets and available-for-sale securities attributable to the increase in additional capital) or decrease in provisions for possible losses;
- Increase of assets as a result of specific operations on delivery (sale) of assets, performance of works, rendering of services;
- Reduction of liabilities that are not related to the reduction or disposal of the relevant assets.

Expenses are recognized as a decrease in economic benefits, leading to a decrease in own funds (capital) and taking place in the form of:

- Disposal of assets;
- Reduction in the value of assets as a result of revaluation (except for revaluation (revaluation) of property and equipment, intangible assets and securities "available-for-sale" attributable to reduction of additional capital), creation (increase) of reserves for possible losses or depreciation and amortization;
- Reduction of assets as a result of specific transactions on delivery (sale) of assets, performance of works, provision of services;
- Increase in liabilities not related to the receipt (formation) of the relevant assets.

Income is recognized in the accounting under the following conditions:

- The right to receive this income is derived from a specific contract or confirmed otherwise;
- The amount of income can be determined;
- There is no uncertainty in receiving the income;
- As a result of a specific operation for the supply (sale) of the asset, performance of works, provision of services, the ownership of the supplied asset was transferred to the buyer or the work was accepted by the customer, the service was provided.

The expense is recognized in accounting in the presence of the following conditions:

- The expense is made (arises) according to the specific contract, requirements of legislative and other regulatory acts, customs of business turnover;
- The amount of expenses can be determined reliably.
- There is no uncertainty as to the expense.

2.7.2. Gain/(loss) from foreign currency transactions

The income and expenses from the operations of purchase and sale of foreign currency for rubles in non-cash form are defined as the difference between the rate of the transaction and the official rate at the date of the transaction.

Income and expenses from foreign exchange operations (purchase and sale of foreign currency for another foreign currency) in the form of cash are determined as the difference between the ruble equivalent of the relevant foreign currency at the official exchange rate at the date of the transaction (the transaction).

The date of these transactions (deals) is the first of two dates:

- Delivery date;
- Date of receipt.

2.7.3. Foreign currency revaluation gains and losses

Revaluation is carried out and recorded in the accounting separately for each foreign currency. The financial result of the revaluation is determined for each foreign currency on the basis of the change in the ruble equivalent of incoming balances in the relevant foreign currency at the beginning of the day.

Negative revaluation is defined as:

- Reduction of ruble equivalent of assets and claims;
- Increase in ruble equivalent of liabilities.

Positive revaluation is defined as:

- Increase in ruble equivalent of assets and claims;
- Reduction of ruble equivalent of liabilities.

2.7.4. Fee and commission income and expense

Fee and commission income comprises:

- Transaction and service fees;
- Fees for intermediary services under Commission and assignment agreements, Agency agreements and other similar agreements.

Fee and commission expenses include NSD expenses in the form of:

- Transaction and service fees;
- Fees charged to NSD for the provision of intermediary services under Commission and assignment agreements, Agency agreements and other similar agreements.

Fee and commission income and expenses are recognized as they are earned or incurred.

2.7.5. Other operating income and expenses

Other operating income includes income of a one-time, occasional, nature, as well as income that is not related to the main services provided by NSD.

Operating expenses include the costs associated with the provision of NSD activities, wearing a corporate nature and not identifiable with each particular commit operation or the transaction, and other costs associated with the implementation of the NSD normal course of business.

2.7.6. Tax expenses

NSD charges and pays taxes in accordance with the tax legislation of the Russian Federation. The most significant for NSD are income tax, value added tax and property tax.

Income tax expense comprises current tax and deferred tax.

The amount of current tax is determined on the basis of taxable profit for the year. Taxable profit differs from profit reported in the statement of comprehensive income in respect of items of income or expense that are taxable or deductible in other periods and does not include items that are not taxable or deductible in respect of taxation. The current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities recognized in the balance sheet and the related tax effects determined in the calculation of taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Tax assets and liabilities are not recognized in the accounting records if the temporary differences associated with business reputation (goodwill) or arise from the initial recognition of other assets and liabilities in transactions (excluding transactions on business combination) which affect neither taxable nor accounting profit.

2.8. List of significant changes made by NSD to accounting policies that affect comparability of certain performance indicators of NSD

Starting from 1 January 2019 the following regulations of the Bank of Russia were enacted:

- No. 604-P of 2 October 2017 "On the Procedure of Accounting by Credit Institutions for Transactions of Raising Funds under Bank Deposit Agreements and Loan Agreements, and Transactions of Issuing and Redeeming Bonds, Promissory Notes, and Deposit and Savings Certificates";
- No. 605-P of 2 October 2017 "On the Procedure of Accounting by Credit Institutions for Transactions of Placing Funds under Loan Agreements, Transactions of Purchasing Receivables from Third Parties Related to the Performance of Cash Liabilities, and Transactions Related to Liabilities under Bank Guarantees Issued and Funds Provision";
- No. 606-P of 2 October 2017 "On the Procedure of Accounting for Securities Transactions by Credit Institutions";

and also amendments to Regulation No. 579-P aimed at fulfilling requirements of IFRS 9 "Financial Instruments".

The most significant changes relate to the accounting and reporting treatment of financial assets and liabilities and the recognition of adjustments to the values of financial assets and liabilities, and adjustments to allowances for losses before loss allowances for ECLs determined in accordance with IFRS 9.

New accounting principles for financial instruments are detailed in Note 2.4. The quantitative assessment of the effect of changes on the amounts in NSD's financial statements is presented in Note 2.9 below.

2.9. Effect of changes in the accounting policy on the financial statements

The effect of changes in the accounting policy introduced due to the adoption of IFRS 9 on NSD's financial statements is presented below.

In accordance with the information letter of the Bank of Russia dated 23 April 2018 No. IN-18-18/21, the assessment of raised and placed funds, operations with securities and other operations listed in the accounting records as at 1 January 2019 was made with representation of financial results in the profit (loss) of the reporting year.

Balance sheet item	IFRS 9 category	Carrying value as at 1 January 2019	Carrying value reclassification	Revaluation	Carrying value after reclassification and revaluation
Cash	Financial assets at amortized cost	2 222	-	-	2 222
Balances with the Central Bank of the Russian Federation	Financial assets at amortized cost	3 178 121	-	-	3 178 121
Due from credit institutions	Financial assets at amortized cost	108 339 250	-	-	108 339 250
Financial assets at fair value through profit or loss	Financial assets at FVTPL	12 106 377	-12 069 824	11 097	47 650
Net investments in securities and other financial assets available for sale	-	9 233	-9 233	-	-
Net investments in financial assets measured at fair value through other comprehensive income	Financial assets at FVTOCI	-	12 106 377	-	12 106 377
Other assets (in part of financial assets)	Financial assets at amortized cost	486 918	-27 320	-	459 598
Loans, deposits and other balances due to the Central Bank of the Russian Federation	Financial liabilities at amortized cost	234	-	-	234
Customer accounts at amortized cost	Financial liabilities at amortized cost	92 517 192	-	-	92 517 192
Other liabilities (in part of financial liabilities)	Financial liabilities at amortized cost	25 536 241	-	-	25 536 241
Corresponding lines in equity:					
Retained earnings (accumulated deficit) in part of retained earnings of the reporting period	-	9 910 149	-	40 881	9 951 030
Fair value revaluation of financial assets at fair value through other comprehensive income	-	-	-	-29 784	-29 784

The effect of IFRS 9 adoption on profit (loss) for the reporting period in part of allowances for expected credit losses is presented in Note 3.23.

2.10. Critical accounting judgments and key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period.

2.10.1. Business model determination

Classification and measurement of financial assets depends on the results of the SPPI and Business model determination. NDS's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective (more detailed information is provided in paragraph 2.4). NSD controls financial assets at amortized cost and FVTOCI, which were derecognized prior to their maturity, to understand the reasons for their disposal and whether the reasons are consistent with the objective of the business model under which the asset was managed. NSD reviews the business model used for the remaining group of assets for appropriateness, and, in case of its irrelevancy or change, reclassifies these assets on a prospective basis.

2.10.2. Significant increase in credit risk

As shown in paragraph 2.4.6, expected credit losses are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 provides no definition of a significant increase in credit risk. When determining whether there has been a significant increase in credit risk, NSD considers information in paragraph 2.4.8.

2.10.3. Accounting for intangible assets

An intangible asset is recognized if, based on a professional judgment, the item meets all the relevant recognition criteria. Wherein, the initial cost of an intangible asset comprises the amounts actually paid or accrued accounts payable for services on creation of an intangible asset, and providing conditions for its use, rendered by third-party contractors to NSD.

When determining the useful life of its intangible assets, NSD uses professional judgment based on the estimated useful life of the asset during which NSD expects to generate economic benefits, and based on the term of NSD's rights to the asset. Useful lives of intangible assets are reviewed annually and revised as necessary.

At the end of each reporting period, NSD reviews its intangible assets for indications of impairment. Where any such indications exist, NSD makes an estimate of the asset's recoverable amount. This requires assessing the value in use of the asset or the respective cash-generating unit. Value in use is determined using the discounted cash flow method, which requires estimating the expected future cash flows and selecting a suitable discount rate. These estimates may have a significant impact on the recoverable amount and the impairment amount of intangible assets.

2.10.4. Taxation

Recognized deferred tax assets represent income tax recoverable through future income tax expenses and recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that it is probable that the related tax benefit will be realized. Assessment of future taxable profit and tax benefit probable for recovery in the future is based on expectations of the management which are considered reasonable under the circumstances.

Russian legislation contains provisions allowing for more than one interpretation. Accordingly, there is a risk that the tax authorities may challenge treatment of some business activities that were based on management's interpretation and may charge additional taxes, penalties and interest. Such uncertainty may relate to the valuation of financial instruments, valuation of allowances for impairment/losses and market pricing of deals. Management believes that all tax amounts due have been accrued. Accordingly, no allowances were recorded in these financial statements.

2.11. Fair value measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in a voluntary transaction between market participants at the measurement date.

The NSD measures fair values for financial assets recorded on the statement of financial position at fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities.
- Level 2: Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable).
- Level 3: Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable).

The foreign currency swaps are measured based on observable spot exchange rates and the yield curves of the respective currencies.

The fair value of unquoted equity instruments has been determined based on market approach using price/net assets ratio for similar companies.

The table below analyses financial assets and liabilities measured at fair value, by the level in the fair value hierarchy into which the fair value measurement is categorized:

As at 1 January 2020:

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through other comprehensive income	20 027 605	-	-	20 027 605
Financial assets at fair value through profit or loss	-	19 614	5 980	25 594

As at 1 January 2019:

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	12 106 377	-	-	12 106 377

As at 1 January 2020 and 1 January 2019, fair value of financial assets and liabilities included in other items of the balance sheet is categorized in Level 3 of the fair value hierarchy.

2.12. Reclassification

The following significant reclassification was made when preparing form 0409806 "Balance sheet (published form)" for the year 2018 for comparability purposes.

Foreign currency denominated cash transferred to the National Clearing Center for the purpose of currency trading on the Moscow Exchange were reclassified from "Net loans receivable" to "Due from credit institutions".

Accrued interest on correspondent nostro accounts were reclassified from "Other assets" to "Due from credit institutions".

Line	Item description	As reported for 2018	Reclassification amount	As currently reported
3	Due from credit institutions	59 075 742	49 263 508	156 454 116
5a	Net loans receivable	49 263 163	-49 263 163	-
13	Other assets	703 938	-345	703 593

Similar reclassifications were made in the report on the form 0409814 "Statement of cash flows" (published form) for 2018.

Line	Item description	As reported for 2018	Reclassification amount	As currently reported
1.1.1	Interest received	1 836 378	-16 453	1 819 925
1.2.3	Net increase (decrease) in loans and loan equivalents	-6 666 659	6 666 659	-
1.2.6	Net increase (decrease) in amounts due to other credit organizations	-29 381 147	-1 076	-29 382 223
1.2.10	Net increase (decrease) in other liabilities	21 040 606	1 077	21 041 683
4	Effect of changes in the Bank of Russia's official foreign exchange rates on cash and cash equivalents	5 460 331	6 837 693	12 298 024
5	Increase (decrease) in cash and cash equivalents	-18 844 382	13 487 900	-5 356 482
5.1	Cash and cash equivalents at the beginning of the reporting year	72 805 330	35 775 608	108 580 938
5.2	Cash and cash equivalents at the end of the reporting period	53 960 948	49 263 508	103 224 456

2.13. Information on changes to accounting policies of the credit organization for the next reporting year

No material changes were made to NSD's accounting policies for 2020 except for the following.

On 1 January 2020 Regulation of the Bank of Russia No. 659-P of 12 November 2018 "On the Procedure of Accounting for Lease Agreements by Credit Institutions" became effective. NSD developed an internal standard to accommodate the requirements of this Regulation and IFRS 16 "Leases".

The standard introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees.

When the standard becomes effective, NSD will recognize right-of-use assets less depreciation for RUB 51 173 thousand and liabilities under lease agreements for RUB 53 074 thousand. The aggregate negative effect on equity will total RUB 1 901 thousand and will be recognized in profit (loss) for 2020.

3. EXPLANATORY NOTES TO THE BALANCE SHEET, STATEMENT OF FINANCIAL RESULTS, STATEMENT OF CAPITAL ADEQUACY AND STATEMENT OF CASH FLOWS

3.1. Cash

	01.01.2020	01.01.2019
Cash on hand	1 975	2 222
Total cash	1 975	2 222

3.2. Balances with the CBR

	01.01.2020	01.01.2019
Correspondent account with the CBR	2 163 126	3 178 121
Less allowances	-23	-
Total due from the CBR	2 163 103	3 178 121

During the reporting period, NSD was in compliance with the statutory deposit requirements set out by the CBR Regulation No. 507-P of 1 December 2015, Statutory Deposit Requirements for Credit Organizations. NSD maintained the averaged balance of statutory deposits in a correspondent account with the CBR, with an averaging ratio of 1. No additional cash was deposited in a separate statutory deposit account with the CBR during the period.

3.3. Due from credit institutions

	01.01.2020	01.01.2019
Due from Russian credit organizations	135 835 244	75 155 611
Due from non-resident OECD banks	20 519 923	33 131 876
Other	98 678	51 982
Accrued interest on deposits	278	345
Less allowances	-7	-564
Total due from credit organizations	156 454 116	108 339 250

As at 1 January 2020 due from credit organizations comprised RUB 7 683 669 thousand (as at 1 January 2019: RUB 8 294 572 thousand) in blocked correspondent accounts of NSD with Euroclear Bank S.A. / N.V., Brussels, which relate to payments for foreign securities owned by US/EC sanctioned client banks, and the related interest. Due to credit organizations comprises account balances of the said clients totaling RUB 7 683 669 thousand (as at 1 January 2019: RUB 8 294 572 thousand).

As at 1 January 2020, major dues related to 2 credit organizations and non-resident banks and totaled RUB 145 629 178 thousand (93.1% of the total dues from credit organizations).

As at 1 January 2019, major dues related to 4 credit organizations and non-resident banks and totaled RUB 106 186 139 thousand (98.0% of the total dues from credit organizations).

3.4. Financial assets at fair value through profit or loss

	01.01.2020	01.01.2019
Currency swaps	19 614	-
Shares of Society for Worldwide Interbank Financial Telecommunication SCRL (S.W.I.F.T.), Belgium	5 980	-
Russian Ministry of Finance bonds (OFZ)	-	12 106 377
Total financial assets at fair value through profit or loss	25 594	12 106 377

All debt instruments in this item are highly liquid and included in the Lombard List of the CBR.

As at 1 January 2019, bonds totaling RUB 10 981 413 thousand were included in the "Blocked by the CBR" section of the NSD's securities account and could be used as a collateral for NSD's borrowings within the limit set out in the CBR Regulation No. 4801-U of 22.05.2018 "On the methods and criteria of collateralized refinancing of credit organizations".

The table below presents currency swap transactions at fair value through profit or loss:

As at 1 January 2020:

	Nominal amount		Positive fair value	Negative fair value
	Assets	Liabilities		
Currency swaps	10 323 627	-10 304 013	19 614	-
Total	10 323 627	-10 304 013	19 614	-

3.5. Net investments in financial assets at fair value through other comprehensive income

	01.01.2020	01.01.2019
Russian Ministry of Finance bonds (OFZ)	20 027 605	-
Total net investments in financial assets at fair value through other comprehensive income	20 027 605	-

All debt instruments in this item are highly liquid and included in the Lombard List of the CBR.

As at 1 January 2020, bonds totaling RUB 9 347 220 thousand were included in the "Blocked by the CBR" section of the NSD's securities account and could be used as a collateral for NSD's borrowings within the limit set out in the CBR Regulation No. 4801-U of 22.05.2018 "On the methods and criteria of collateralized refinancing of credit organizations".

3.6. Net investments in securities and other financial assets available for sale

This item includes investments in shares of the following issuers:

As at 1 January 2019:

	% in share capital	Carrying value, RUB'000	Fair value, RUB'000
Saint Petersburg Currency Exchange	2,005	6 551	13 770
Society for Worldwide Interbank Financial Telecommunication SCRL (S.W.I.F.T.), Belgium	0,015	2 682	6 560
Total net investments in securities and other financial assets available for sale		9 233	20 330

Investments are presented at acquisition cost less allowance for losses created in accordance with CBR Regulation 611-P of 23 October 2017 "On the Loss Allowance Procedure for Credit Institutions" (hereinafter, "Regulation No. 611-P") on the basis of professional judgment.

The fair value of the Saint Petersburg Currency Exchange shares as at 1 January 2019 was measured based on the actual proceeds from share sale transactions that occurred in Q1 2019.

The fair value of S.W.I.F.T. shares comprises transfer values of the respective shares at the time of their reallocation between shareholders, as measured in rouble equivalent at the reporting date in accordance with S.W.I.F.T. by-laws, using the official rate of exchange established by the CBR for the said date.

3.7. Property and equipment, intangible assets and inventories

	01.01.2020	01.01.2019
Property and equipment	2 519 617	2 596 382
Intangible assets	2 202 583	2 235 241
Inventories and investments in property and equipment and intangible assets	162 638	70 898
Total property and equipment, intangible assets and inventories	4 884 838	4 902 521

Property and equipment are reported at cost and were not revalued.

Movements of property and equipment, intangible assets and accumulated depreciation are presented below. The 'Additions' line item comprises actual costs incurred to acquire property and equipment and intangible assets.

UNOFFICIAL TRANSLATION

	Land	Buildings and structures	Other property and equipment	Inventories	Intangible assets	Purchase of property and equipment and intangible assets	Total
As at 1 January 2018	94 138	2 572 865	826 699	2 578	2 559 432	165 443	6 221 155
Additions	-	-	-	29 048	-	736 856	765 904
Transfers	-	-	134 045	-	696 452	-830 497	-
Disposals	-	-	-20 512	-30 107	-55 994	-2 423	-109 036
As at 1 January 2019	94 138	2 572 865	940 232	1 519	3 199 890	69 379	6 878 023
Additions	-	-	-	24 936	-	791 154	816 090
Transfers	-	-	96 799	-	590 865	-687 664	-
Disposals	-	-	-31 879	-25 781	-	-10 905	-68 565
As at 1 January 2020	94 138	2 572 865	1 005 152	674	3 790 755	161 964	7 625 548

Accumulated depreciation is presented below.

	Land	Buildings and structures	Other property and equipment	Inventories	Intangible assets	Purchase of property and equipment and intangible assets	Total
As at 1 January 2018	-	231 216	607 253	-	518 362	-	1 356 831
Depreciation charges	-	54 006	138 876	-	488 284	-	681 166
Write-offs	-	-	-20 498	-	-41 997	-	-62 495
As at 1 January 2019	-	285 222	725 631	-	964 649	-	1 975 502
Depreciation charges	-	54 006	119 558	-	623 523	-	797 087
Write-offs	-	-	-31 879	-	-	-	-31 879
As at 1 January 2020	-	339 228	813 310	-	1 588 172	-	2 740 710

As at 1 January 2020 and 2019, included in property and equipment were fully depreciated assets of RUB 653 819 thousand and RUB 505 019 thousand, respectively.

3.8. Other assets

	01.01.2020	01.01.2019
Other financial assets, including:		
<i>Accrued receivables for customer services</i>	624 097	543 797
<i>Revalued receivables and payables on delivery of financial assets</i>	29	27 320
<i>Other financial assets</i>	1 208	1 440
Less allowances	-11 803	-85 639
Total other financial assets	613 531	486 918
Other non-financial assets, including:		
<i>Advances paid in business transactions</i>	110 483	167 607
<i>Taxes payable</i>	18 513	10 089
<i>Other receivables</i>	1 377	1 949
<i>Prepaid expenses</i>	-	40 954
Less allowances	-	-3 924
Total other non-financial assets	130 373	216 675
Total other assets	743 904	703 593

The table below presents foreign exchange and currency swap transactions for which assets and liabilities were revalued.

As at 1 January 2020:

	Nominal amount		Positive revaluation	Negative revaluation
	Assets	Liabilities		
Forex transactions	497 432	-497 403	183	-154
Total	497 432	-497 403	183	-154

As at 1 January 2019:

	Nominal amount		Positive revaluation	Negative revaluation
	Assets	Liabilities		
Forex transactions	385 550	-385 491	349	-290
Currency swaps	17 497 929	-17 470 668	27 660	-399
Total	17 883 479	-17 856 159	28 009	-689

Gain/loss on revaluation totaling RUB 29 thousand (1 January 2019: RUB 27 320 thousand) was included in other assets.

3.9. Loans, deposits and other balances due to the Central Bank of the Russian Federation

	01.01.2020	01.01.2019
CBR correspondent accounts	200	234
Total	200	234

3.10. Due to credit institutions

	01.01.2020	01.01.2019
Clearing bank accounts	74 128 437	31 593 532
Correspondent accounts of credit organizations	53 902 198	21 718 702
Trading bank accounts	8 345 915	21 719 133
Trading bank accounts – non-residents	754 471	422 469
Accounts of credit organizations – trustees	416 233	42 419
Obligations to repay interest	19 218	10 333
Correspondent accounts of banks - non-residents	5 853	-
Overdrafts from correspondent accounts	1 798	1 271
Total due to credit institutions	137 574 123	75 507 859

3.11. Customer accounts (other than credit institutions)

	01.01.2020	01.01.2019
Trading and transit currency accounts	11 878 175	7 914 200
Bank and transit currency accounts	8 589 644	8 181 067
Clearing accounts	875 491	234 708
Trading accounts – non-residents	335 023	530 698
Bank accounts – non-residents	49 283	30 167
Wire transfers in progress	-	118 493
Total customer accounts (non-credit institutions)	21 727 616	17 009 333

All customers with significant account balances are represented by organizations offering financial and related services.

3.12. Other liabilities

	01.01.2020	01.01.2019
Other financial liabilities, including:		
Payable to customers for securities services	11 714 145	24 607 766
Payable on business transactions	54 247	39 041
Payable to employees	40 840	37 566
Other financial liabilities	43 321	111 398
Total other financial liabilities	11 852 553	24 795 771
Other non-financial liabilities, including:		
Payable to employees	407 481	387 923
Taxes payable	333 293	120 851
Advances received under service agreements with customers	247 443	231 696
Other non-financial liabilities	313	-
Total other non-financial liabilities	988 530	740 470
Total other liabilities	12 841 083	25 536 241

As at 1 January 2020, major payables related to 4 issuers and totaled RUB 8 631 498 thousand (73.7% of the total payables to issuers for securities services).

As at 1 January 2019, major payables related to 2 issuers and totaled RUB 20 718 289 thousand (84.2% of the total payables to issuers for securities services).

3.13. Shareholders' (participants') equity

NSD's share capital totals RUB 1 180 675 thousand and comprises 1 180 675 ordinary shares with a par value of RUB 1 thousand each carrying equal voting rights.

NSD's registered shareholder register lists the following parties:

	01.01.2020		01.01.2019	
	% in share capital	Number of ordinary shares	% in share capital	Number of ordinary shares
Moscow Exchange	99,997	1 180 641	99,997	1 180 640
Other ownership	0,003	34	0,003	35
Total shareholders' (participants') equity	100,000	1 180 675	100,000	1 180 675

NSD has the right to offer 74 325 more ordinary shares with a par value of RUB 1 thousand each. If NSD offers authorized shares, such shares will carry the same rights as those already outstanding.

3.14. Reserve fund

	01.01.2020	01.01.2019
Reserve fund	177 101	177 101
Total	177 101	177 101

In accordance with its Charter, NSD maintains a reserve amounting to 15% of its share capital. Capital reserve is set aside to cover losses and repurchase NSD's shares where no other resources are available. The reserve may not be used for any other purposes.

3.15. Interest income

	2019	2018
Interest income on debt securities	1 161 629	1 438 852
Interest income on deposits with the CBR	58 536	87 944
Interest income on balances due from non-resident banks	16 320	18 457
Interest income on balances due from credit organizations	3 698	157 060
Total interest income	1 240 183	1 702 313

3.16. Interest expense

	2019	2018
Interest expense on balances due from non-resident banks carrying negative interest rates	219 706	147 780
Interest expense on overdrafts from correspondent accounts	2	126
Total interest expense	219 708	147 906

3.17. Net gain on financial assets at fair value through profit or loss

	2019	2018
Net gain on cross-currency swaps: fair value revaluation and net gain on interim payments	2 346 014	10 450
Net gain/(loss) on debt securities transactions	39 879	-72 474
Net gain from equity securities transactions	10 517	-
Total net gain on financial assets at fair value through profit or loss	2 396 410	-62 024

3.18. Net gain on securities at fair value through other comprehensive income

	2019	2018
Net (loss) on debt securities transactions	-14 153	-
Total net gain on securities at fair value through other comprehensive income	-14 153	-

3.19. Net gain on foreign exchange operations

	2019	2018
Net gain on non-cash cross-currency swaps	-27 261	1 138 655
Net gain on other non-cash FX transactions	8 951	22 617
Net gain on embedded derivatives not separable from the host contract	-	-355
Net gain on FX transactions	-18 310	1 160 917

3.20. Net gain on foreign currency revaluation

	2019	2018
Net (loss) on FX revaluation – revaluation of FX position as a result of cross-currency swaps	-1 043 958	-971 913
Net (loss) on FX revaluation – other	-4 760	-18 025
Total net gain on FX revaluation	-1 048 718	-989 938

3.21. Fee and commission income

	2019	2018
Depository services	4 621 332	4 311 223
Clearing and collateral management services	666 562	435 601
Cash services	532 840	365 656
Information services	96 877	78 816
Other services	120 656	101 715
Total fee and commission income	6 038 267	5 293 011

3.22. Fee and commission expense

	2019	2018
Depository services	315 250	378 250
Recording foreign currency collateral on the FX market of the Moscow Exchange	101 583	4 447
Settlement services	51 998	52 333
Registrar services	30 728	92 153
NSD representative fee	7 081	7 081
Other fee and commission expense	4 343	15 289
Total fee and commission expense	510 983	549 553

3.23. Change in allowances for balance sheet assets and other losses

	Securities available for sale/secu- rities at FVTOCI	Due from credit institutions and the CBR	Other assets	Transac- tions with offshore residents	Total
As at 1 January 2018	-	-	76 738	28	76 766
Allowances/(recovery of allowances)	-	564	12 825	-7	13 382
As at 1 January 2019 before IFRS 9 adoption	-	564	89 563	21	90 148
Effect of transition to IFRS 9	5 071	-517	-74 432	-	-69 878
As at 1 January 2019 after IFRS 9 adoption	5 071	47	15 131	21	20 270
Allowances/(recovery of allowances)	1 686	-17	1 561	-1	3 229
Including allowances/(recovery of allowances) of allowances for possible losses	-	48	-13 709	-1	-18 551
Assets written off against allowances	-	-	-4 889	-	-4 889
As at 1 January 2020	6 757	30	11 803	20	18 610
Including allowances for possible losses	-	612	70 965	-	71 597

As at 1 January 2019 and earlier dates, presented in the financial statements are allowances for losses created in accordance with regulations of the Bank of Russia: Regulation No. 611-P of 23 October 2017 "On the Loss Allowance Procedure for Credit Institutions", Instruction No. 1584-U of 22 June 2005 "On the Loss Allowance Procedure and Amount under Transactions of Credit Organizations with Offshore Residents".

As at 1 January 2020, presented in the financial statements are loss allowances created in accordance with IFRS 9.

3.24. Other operating income

	2019	2018
Lease income	26 427	25 971
Property tax reduction for previous periods	15 441	-
Software licensing fees	3 129	7 150
Adjustment of employee benefits	616	7 203
Disposal of property and equipment	-	1 358
Other operating income	3 653	3 907
Total other operating income	49 266	45 589

3.25. Operating expenses

	2019	2018
Employee benefits	1 505 315	1 370 851
Amortization of intangible assets	623 523	488 284
Maintenance of property and equipment and other assets	316 118	285 963
Taxes on employee benefits	304 013	268 668
Depreciation of property and equipment	173 564	192 882
Engineering services	62 199	62 283
Consulting services	54 895	26 170
License fees for intellectual properties	35 279	32 721
Telecommunication and information system services	26 290	26 452
Hospitality expenses	20 998	20 289
Insurance	20 624	19 160
Professional services	16 196	9 959
Business trips	12 022	13 803
Lease payments	10 912	12 472
Inventories written off	10 868	15 542
Advertising	10 575	8 252
Employee training and development	9 308	9 249
Security	7 548	6 809
Repairs of property and equipment and other assets	4 686	1 856
Charity	3 435	3 278
Audit services	2 601	10 400
Disposals of property and equipment and intangible assets	-	14 011
Other	26 764	21 383
Total operating expenses	3 257 733	2 920 737

3.26. Tax benefit (expense)

	2019	2018
Current income tax	901 187	684 184
Value-added tax	87 767	79 355
Property tax	26 604	36 613
Income tax decrease by deferred income tax	-5 170	-43 171
Other tax expenses	3 688	4 027
Total tax benefit/(expense)	1 014 076	761 008

3.27. Explanatory Notes to the Statement of Capital Adequacy for Risk Coverage

NSD measures its equity in accordance with CBR Regulation No. 646-P of 04.07.2018 "On calculating equity of credit organizations (Basel III)" (hereinafter, Regulation No. 646-P).

The main components of the NSD's equity are:

- Share capital disclosed in Note 3.13;
- Reserve fund disclosed in Note 3.14;
- Retained earnings for the reporting and prior periods.

NSD's equity is presented net of:

- Intangible assets less amortization, as well as investments in construction and acquisition of intangible assets disclosed in Note 3.7.

The main principles applied by NSD to manage its capital, the information about statutory capital requirements effective in the reporting period and NSD's compliance with those requirements are disclosed in Note 4.

3.28. Cash and cash equivalents

	01.01.2020	01.01.2019
Due from credit institutions and non-resident banks	156 454 116	108 339 250
Due from the CBR	2 163 103	3 178 121
Cash on hand	1 975	2 222
Restricted cash	-7 683 669	-8 294 572
Assets at risk of loss	-1 224	-565
Total cash and cash equivalents	150 934 301	103 224 456

Cash and cash equivalents comprise cash on hand denominated in rubles and in foreign currencies, cash in a correspondent account with the CBR, cash in NOSTRO accounts with Russian credit institutions and non-resident banks and cash in the National Clearing Center to collateralize trade transactions at the FX market of the Moscow exchange. Cash and cash equivalents are presented net of cash in correspondent accounts that have loss allowances recognized in accordance with CBR Regulation No. 611-P, as well as cash blocked in correspondent accounts.

As at 1 January 2020 due from credit organizations comprised RUB 7 683 669 thousand (as at 1 January 2019: RUB 8 294 572 thousand) in blocked correspondent accounts of NSD with Euroclear Bank S.A. / N.V., Brussels, which relate to payments for foreign securities owned by US/EC sanctioned client banks, and the related interest. Due from credit organizations comprised balances for this client totaling RUB 7 683 669 thousand (as at 1 January 2019: RUB 8 294 572 thousand).

4. INFORMATION ON RISKS ASSUMED, RISK ASSESSMENT, RISK AND CAPITAL MANAGEMENT**4.1. Significant risks structure**

The classification of risks inherent to NSD's operations by source is presented in the table below:

Liquidity risk	
Market risks	Currency risk
	Interest rate risk
	Price risk
Credit risk	
Operational risk	

Liquidity risk is the risk of potential losses resulting from a failure to perform obligations in full as a result of a mismatch of financial assets and liabilities and/or due to an unforeseen necessity to fulfill financial liabilities immediately and simultaneously.

Currency risk is the risk of potential losses resulting from adverse changes in foreign exchange rates.

Interest rate risk is the risk of potential losses resulting from adverse changes in the value of assets and liabilities due to changes in interest rates and/or returns.

Price risk is the risk of potential losses resulting from adverse changes in the value of financial instruments.

Credit risk is the risk of potential losses resulting from a default or improper performance of their obligations to NSD by its counterparties with respect to interest or principal payments in accordance with contractual terms and conditions or terms and conditions of the issue of debt securities.

Operational risk is the risk of potential losses resulting from the fact that NSD's internal rules and procedures for transactions are inadequate to the nature and scope of its business and/or the current legislative requirements; from failure by NSD's employees or other persons to comply with such internal rules and procedures (through unintentional or deliberate action, or omission); from inadequacy/insufficiency of the operational features/characteristics of informational, technical and other systems used by NSD and/or their failures/breakdowns; and from external impacts.

4.2. Risk management system structure

NSD manages its risks in accordance with its internal Risk Management Policy (approved by the Supervisory Board on 11 September 2019), Risk and Capital Management Strategy (approved by the Supervisory Board on 12 March 2019), Risk Management Rules for the central securities depository (approved by the Supervisory Board on 5 March 2019), internal regulations on the Risk Management Department (approved by the Chairman of the Management Board on 13 August 2018), Risk Management Committee of NSD's Management Board (approved by the Management Board on 11 November 2011 as amended on 13 April 2012), and other policies and procedures regulating management of certain risks and usage of certain risk management tools.

Risk management system participants include all divisions of NSD as well as management and advisory bodies of the Organization.

Depending on the competencies of the divisions, there are three lines (levels) of defense providing for the involvement of each employee in the risk management process:

The first line (level) of defense is represented by all employees of NSD involved in the risk management process as part of their day-to-day work. Competencies of NSD divisions in terms of risk management are determined in accordance with the Organization's internal documents including Regulations on divisions. Their competencies as part of the risk management system include:

- Identification, collections, assessment of risks, designing and implementing risk mitigation procedures as envisaged by internal documents of NSD;
- Development of specific recovery plans for business processes as part of the general business continuity and business recovery plan of NSD, participation in recovery procedures to ensure the continuity of business processes, taking preventive measures;
- Executing decisions of NSD's management bodies to the extent relating to risk management issues.

The second line (level) of defense is represented by divisions responsible for the organization of processes and the application of risk management tools: Risk Management Department, Internal Control Department, Legal Department, Business Continuity Service, Information Security Department, Security Department. Their competencies include:

- Collection, analysis and assessment of risks in NSD;
- Development of a risk management methodology;
- Participation in the development of proposals on the improvement of business processes and controls to mitigate risks;
- Monitoring of planned events to mitigate risks;
- Preparation of risk management reports.

The third line (level) of defense is represented by the Internal Audit Department of NSD. Competencies of the Internal Audit Department as part of the risk management system include:

- Review and assessment of efficiency of NSD's risk management and internal control systems and the execution of decisions of NSD's management bodies;
- Review of completeness of application and efficiency of the risk assessment methodology and risk management procedures;
- Review of reliability of the internal control system with respect to the use of automated systems;

- Review of risk management and internal control processes and procedures including the compliance of internal documents with regulatory requirements and self-regulatory organization standards;
- Review of activities of the departments.

Roles and responsibilities are allocated between management and advisory bodies of NSC as follows:

Supervisory Board of NSD:

- Approves internal documents of a conceptual nature i.e. setting out the main principles of the risk management system of NSD;
- Reviews regular risk management and ICAAP reports;
- Approves the amount of NSD's economic capital;
- Exercises control over risk management activities of NSD's executive bodies and assesses the efficiency of risk management procedures in NSD;
- Exercises control over the completeness and frequency of reviews by the Internal Audit Department of the efficiency of the risk assessment methodology and risk management procedures;
- Develops recommendations for the General Meeting of Shareholders with respect to dividends to be paid to NSD's shareholders based on the Organization's economic capital;
- Approves the development strategy of NSD and functional strategies developed for its implementation;
- Approves the risk management system development strategy and monitors the status of its implementation;
- Considers issues with respect to organization, monitoring and control over the compensation system and other issues specified in Instruction of the Bank of Russia No. 154-I dated 17 June 2014.

Audit Committee of the Supervisory Board of NSD:

- Reviews, approves and makes recommendations to the Supervisory Board of NSD for approval of risk management internal documents prior to their submission for approval by the Supervisory Board of NSD;
- Reviews, preliminarily approves and makes recommendations to the Supervisory Board of NSD for approval of the risk management system development strategy and risk appetite of NSD;
- Makes recommendations to the Supervisory Board of NSD for improvement of the existing risk management tools;
- Reviews regular reports on the status of the risk management system development strategy implementation and makes recommendations to the management of NSD and/or the Supervisory Board of NSD;
- Reviews regular risk management and ICAAP reports and makes recommendations to the management of NSD and/or the Supervisory Board of NSD;
- Reviews, approves and makes recommendations to the Supervisory Board of NSD for approval of the amount of NSD's economic capital prior to its approval by the Supervisory Board of NSD.

Budget Committee of the Supervisory Board of NSD:

- Approves the amount of NSD's economic capital;
- Approves the amount of dividends to be paid to NSD's shareholders based on the Organization's economic capital.

Central Securities Depository Customer Committee:

- Reviews and approves rules for the management of risks associated with NSD's activities and the internal document regulating the procedure for handling complaints and requests from customers.

Committee for Quality Control and Risk Management:

- Makes recommendations on the customer policy of NSD;
- Draws up proposals for customer services of NSD;
- Makes risk management recommendations in terms of the financial market infrastructure including risks posed by NSD and its participants;
- Preliminary approves internal documents including rules for the management of credit, operational and other risks including risks associated with the combination of clearing and other activities, measures to ensure the uninterrupted operation of software and hardware systems intended for clearing operations, measures aimed at preventing and managing the conflict of interests with respect to clearing operations and the combination of clearing and other activities.

Chairman of the Management Board of NSD and Management Board of NSD:

- Allocate risk management roles and responsibilities to NSD's employees and divisions;
- Ensure the adoption of internal documents including risk management rules and procedures;
- Approve methodologies and decide the frequency of assessments of various risks;
- Maintain the capital adequacy ratio of NSD within the established limits;
- Approve the amount of NSD's economic capital;
- Ensure the risk management process of NSD;
- Take risk management decisions, manage the recovery of business processes in accordance with internal documents aimed at business continuity and business recovery.

Risk Management Committee of the Management Board of NSD:

- Considers risk acceptance issues and makes recommendations to the Management Board of NSD for their acceptance;
- Makes recommendations with respect to the distribution of authority and responsibilities related to risk management between the heads of NSD's divisions to comply with the main risk management principles;
- Draws up proposals to improve risk management procedures in NSD;
- Draws up proposals on contingency plans and is responsible for the analysis of a crisis scenario and the initiation of corrective measures, if required;
- Monitors events/facts that may compromise customers' interests or affect the financial sustainability, NSD reputation, identifies the causes and makes recommendations on corrective measures.

Risk Management Committee for Payment System of the Management Board of NSD:

- Establishes criteria and assesses the risk management system in the NSD Payment System;
- Draws up proposals and makes recommendations resulting from the assessment of the risk management system in the NSD Payment System;
- Makes recommendations on information security, reliability and continuity of the NSD Payment System;
- Considers issues of risk monitoring in the NSD Payment System.

The Risk Management Department is responsible for risk management issues. The Risk Management Department is responsible for identifying and assessing risks, setting risk limits, determining capital requirements for their coverage, as well as exercising control over the compliance with the above limits for certain portfolios, types of activity and NSD as a whole. The Risk Management Department is the center ensuring a single risk management approach, methods and exercising control over the compliance of risk management processes with the existing methodology.

As part of the NSD risk management system, there are the following types of internal reports on risks.

The Management Board, the Audit Committee of the Supervisory Board and the Supervisory Board of NSD review a Report on the assessment of risks and the efficiency of the risk management system in NSD submitted by the Risk Management Department twice a year. The Risk Management Department also reports on the progress of the Risk Management Enhancement Strategy 2020 to the Management Board and the Audit Committee (twice a year) and to the Supervisory Board (once a year).

The Risk Management Department files a quarterly non-financial risk management report to the Board, the Audit Committee and the Supervisory Board covering day-to-day risks, their assessment and management, key risk indicators, IT performance and information security.

In addition, the Risk Management Department prepares a monthly financial risk report for the Management Board and the Supervisory Board on credit, liquidity and market risks, and stress testing results, as well as a report on risk events containing information on risk occurrences.

Project risks and risk events (if any) are incorporated in monthly project reports reviewed by the Board.

Non-financial and financial risk management reports are also submitted to members of the Supervisory Board for their information.

As part of internal capital adequacy assessment procedures (ICAAP), management reports are submitted to NSD's management and management bodies in accordance with CBR Directive No. 3624-U of 15 April 2015 "On risk and capital management in credit organizations and banking groups".

4.3. Key capital management principles

Internal capital adequacy assessment procedures (to assess capital adequacy for risk coverage) have been implemented as part of the development of a comprehensive risk and capital management system of NSD.

The development of the risk and capital management system of NSD is aimed to:

- Identify, assess, aggregate, and monitor significant risks;
- Assess capital adequacy for the coverage of significant risks;
- Plan capital based on a comprehensive evaluation of significant risks, NSD's testing of resistance to internal and external risk factors (stress testing), business development targets, NSD's development strategy, capital adequacy requirements established by the Bank of Russia.

NSD's capital and operations are planned annually for the period of 1 year.

The capital amount required to cover losses if significant risks materialize, including in response to stress conditions, (planned economic capital level) is set by the Supervisory Board of NSD.

NSD's capital is assessed as adequate when all of the following conditions are met:

- NSD's capital is adequate to cover capital requirements with respect to all significant risks calculated in accordance with the Regulation on the Procedure for Stress Testing and NSD's Capital Adequacy Assessment;
- NSD complies with minimum regulatory capital requirements for all licensed types of activities;
- N1.0 capital adequacy ratio set by the Bank of Russia for non-banking credit organization is applied.

The planned economic capital structure of NSD includes:

- Capital required to cover current risks;
- Supplementary capital for stress;
- Allowance for inaccuracy of the existing stress-testing models;
- Capital reserve for development.

During the reporting year, the capital adequacy ratio as set by Instruction of the Bank of Russia No. 129-I dated 26 April 2006 On Banking Operations and Other Transactions by Non-Banking Settlement Credit Organizations, Required Ratios for Non-Banking Settlement Credit Organizations and the Specifics of the Bank of Russia's Supervision of their Compliance (hereinafter, Instruction 129-I), was 12%. In November 2012 the Central Securities Depository status was assigned by the RF Federal Financial Markets Service to NSD. Therefore, NSD set its minimal capital limit at RUB 4 billion.

Effective 29 September 2018, NSD assessed its capital adequacy using on the limit specified in CBR Regulation No. 646-P (in 2017 and in the period to 29 September 2018 – CBR Regulation No. 395-P). In the reporting period NSD complied with all regulatory capital adequacy requirements.

4.4. Geographical concentration of assets and liabilities

The geographical concentration of assets and liabilities is presented below.
As at 1 January 2020:

	Russia	CIS countries	USA	Other OECD countries	Other countries	Total
I. ASSETS						
1. Cash	1 531	-	-	444	-	1 975
2. Balances with the CBR	2 163 103	-	-	-	-	2 163 103
3. Due from credit institutions	135 835 512	98 678	1 572 972	18 946 954	-	156 454 116
4. Financial assets at fair value through profit or loss	19 614	-	-	5 980	-	25 594
6. Net investments in financial assets at fair value through other comprehensive income	20 027 605	-	-	-	-	20 027 605
9. Current income tax assets	27 825	-	-	-	-	27 825
10. Deferred income tax asset	98 478	-	-	-	-	98 478
11. Property and equipment, intangible assets and inventories	4 884 838	-	-	-	-	4 884 838
13. Other assets	705 196	1 149	998	35 584	977	743 904
14. Total assets	<u>163 763 702</u>	<u>99 827</u>	<u>1 573 970</u>	<u>18 988 962</u>	<u>977</u>	<u>184 427 438</u>
II. LIABILITIES						
15. Loans, deposits and other balances due to the Central Bank of the Russian Federation	200	-	-	-	-	200
16. Customer accounts at amortized cost	158 136 093	139 995	-	727 569	298 082	159 301 739
16.1. due to credit institutions	136 792 783	139 995	-	640 110	1 235	137 574 123
16.2. customer accounts (other than credit institutions)	21 343 310	-	-	87 459	296 847	21 727 616
21. Other liabilities	12 254 166	51 461	37 439	393 005	105 012	12 841 083
22. Allowance for losses under loan commitments, other losses and transactions with offshore residents	-	-	-	-	20	20
23. Total liabilities	<u>170 390 459</u>	<u>191 456</u>	<u>37 439</u>	<u>1 120 574</u>	<u>403 114</u>	<u>172 143 042</u>
NET BALANCE SHEET POSITION	<u>-6 626 757</u>	<u>-91 629</u>	<u>1 536 531</u>	<u>17 868 388</u>	<u>-402 137</u>	<u>12 284 396</u>

As at 1 January 2019:

	Russia	CIS countries	USA	Other OECD countries	Other countries	Total
I. ASSETS						
1. Cash	1 713	-	-	509	-	2 222
2. Balances with the CBR	3 178 121	-	-	-	-	3 178 121
3. Due from credit institutions	75 155 921	51 417	5 651 223	27 480 689	-	108 339 250
4. Net investments in financial assets at fair value through profit and loss	12 106 377	-	-	-	-	12 106 377
6a. Net investments in securities and other financial assets available for sale	6 551	-	-	2 682	-	9 233
9. Current income tax assets	11 000	-	-	-	-	11 000
10. Deferred income tax asset	109 973	-	-	-	-	109 973
11. Property and equipment, intangible assets and inventories	4 902 521	-	-	-	-	4 902 521
13. Other assets	677 453	707	-	25 365	68	703 593
14. Total assets	96 149 630	52 124	5 651 223	27 509 245	68	129 362 290
II. LIABILITIES						
15. Loans, deposits and other balances due to the Central Bank of the Russian Federation	234	-	-	-	-	234
16.1. Due to credit institutions	75 073 786	39 048	-	395 025	-	75 507 859
16.2. Customer accounts (other than credit institutions)	16 448 468	-	-	119 407	441 458	17 009 333
19. Current income tax liabilities	40 677	-	-	-	-	40 677
21. Other liabilities	9 415 639	928	95 110	16 009 992	14 572	25 536 241
22. Allowance for losses under loan commitments, other losses and transactions with offshore residents	-	-	-	-	21	21
23. Total liabilities	100 978 804	39 976	95 110	16 524 424	456 051	118 094 365
NET BALANCE SHEET POSITION	-4 829 174	12 148	5 556 113	10 984 821	-455 983	11 267 925

As at 1 January 2020 and 2019 NSD had a number of FX exchange and FX swap contracts with Russian residents. Assets and liabilities under these contracts are disclosed in Note 3.8.

4.5. Liquidity risk

Liquidity risk is assessed using the predictive analysis of liquidity based on the forecast of maturity and demand for assets and liabilities taking into account the analysis of refinancing arrangements.

Liquidity risk measures include:

- Liquidity gaps defined as the difference between the total amount of assets and liabilities calculated on a cumulative basis by maturity taking into account possible refinancing instruments;
- Liquidity ratios defined as the percentage ratio of the liquidity gap calculated on a cumulative basis to total liabilities.

Liquidity risk management measures include:

- Identification of potential sources of refinancing to be used to meet the liquidity deficit;
- Control over liquidity gaps and ratios;
- Compliance with liquidity ratios established by the Bank of Russia.

NSD places temporarily available funds in risk-free assets or those exposed to minimal risk in accordance with Instruction No. 129-I and Directive of the Bank of Russia No. 4377-U dated 19 May 2017 On the Requirements for Credit Organizations and Foreign Banks Which the Central Depository is Entitled to Place Funds with.

In 2019 NSD placed temporarily available funds in deposits with the Bank of Russia maturing within 30 calendar days, federal loan bonds (OFZ), and coupon bonds of the Bank of Russia. Amounts of deposits placed with the Bank of Russia and investments in securities are determined on a daily basis.

In 2019 cash in foreign currencies was placed mainly on correspondent accounts with non-resident banks in developed countries that have a Standard & Poor's (Fitch Ratings, Moody's) credit rating of "BBB" or higher.

The liquidity position is controlled on a daily basis by the General Economic Department and Accounting and Reporting Department of NSD. The ratio of the sum of liquid assets with the maturity in the next 30 calendar days to the sum of liabilities (N15) is calculated on a daily basis in accordance with accounting data. A minimal value of N15 ratio is set by Instruction No. 129-I and amounts to 100%. As at 1 January 2020 NSD's N15 ratio was 104.2% (as at 1 January 2019: 105.4%).

Maturities of on-balance financial assets and liabilities as at 1 January 2020 and 2019 are presented below.

As at 1 January 2020:

	Less than 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	Maturity undefined	Total
FINANCIAL ASSETS:						
Cash	1 975	-	-	-	-	1 975
Balances with the CBR	2 163 103	-	-	-	-	2 163 103
Due from credit institutions	148 770 447	-	-	-	7 683 669	156 454 116
Financial assets at fair value through profit or loss	19 614	-	-	-	5 980	25 594
Net investments in financial assets at fair value through other comprehensive income	20 027 605	-	-	-	-	20 027 605
Other financial assets	582 444	31 087	-	-	-	613 531
TOTAL FINANCIAL ASSETS	171 565 188	31 087	-	-	7 683 669	179 285 924
FINANCIAL LIABILITIES:						
Loans, deposits and other balances due to the Central Bank of the Russian Federation	200	-	-	-	-	200
Due to credit institutions	129 890 454	-	-	-	7 683 669	137 574 123
Customer accounts (other than credit institutions)	21 727 616	-	-	-	-	21 727 616
Other financial liabilities	11 811 748	-	40 805	-	-	11 852 553
TOTAL FINANCIAL LIABILITIES	163 430 018	-	40 805	-	7 683 669	171 154 492
Liquidity gap	8 135 170	31 087	-40 805	-	5 980	
Cumulative liquidity gap	8 135 170	8 166 257	8 125 452	8 125 452	8 131 432	

As at 1 January 2020 and 2019 NSD had a number of FX exchange and FX swap contracts maturing within 1 month. Assets and liabilities under these contracts are disclosed in Note 3.8.

As at 1 January 2019:

	Less than 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	Maturity undefined	Total
FINANCIAL ASSETS:						
Cash	2 222	-	-	-	-	2 222
Balances with the CBR	3 178 121	-	-	-	-	3 178 121
Due from credit institutions	100 044 678	-	-	-	8 294 572	108 339 250
Financial assets at fair value through profit or loss	12 106 377	-	-	-	-	12 106 377
Net investments in securities and other financial assets available for sale	-	-	-	-	9 233	9 233
Other financial assets	486 918	-	-	-	-	486 918
TOTAL FINANCIAL ASSETS	115 818 316	-	-	-	8 303 805	124 122 121
FINANCIAL LIABILITIES:						
Loans, deposits and other balances due to the Central Bank of the Russian Federation	234	-	-	-	-	234
Due to credit institutions	67 213 287	-	-	-	8 294 572	75 507 859
Customer accounts (other than credit institutions)	17 009 333	-	-	-	-	17 009 333
Other financial liabilities	24 758 240	-	37 531	-	-	24 795 771
TOTAL FINANCIAL LIABILITIES	108 981 094	-	37 531	-	8 294 572	117 313 197
Liquidity gap	6 837 222	-	-37 531	-	9 233	
Cumulative liquidity gap	6 837 222	6 837 222	6 799 691	6 799 691	6 808 924	

Liquidity risk is incorporated in the monthly non-financial risk report prepared by NSD's Risk Management Department for the Management Board.

Undiscounted cash flows relating to financial liabilities approximate cash flows disclosed in the liquidity risk analysis above.

4.6. Market risks

4.6.1. Currency risk

NSD controls its currency risk by monitoring open FX positions. The report on open FX positions is filed to the CBR in accordance with the established procedure.

In 2019, NSD's aggregate daily open position did not exceed 2% of its equity, which was in line with the 20% limit set by the CBR Instruction No. 178-I of 28 December 2016 "Open currency position limits for credit organizations, limit calculation procedure and compliance monitoring by the CBR".

Currency risk is quantified using the open currency position determined in accordance with CBR Instruction No. 178-I of 28 December 2016, using the Value-at-Risk (VaR) approach.

The table below presents a breakdown of NSD's assets and liabilities by currency:

As at 1 January 2020:

	RUB	USD	EUR	Other currencies	Total
I. ASSETS					
1. Cash	1 531	-	444	-	1 975
2. Balances with the Central Bank of the Russian Federation	2 163 103	-	-	-	2 163 103
3. Due from credit institutions	24 881 437	83 835 422	45 867 165	1 870 092	156 454 116
4. Financial assets at fair value through profit or loss	25 594	-	-	-	25 594
6. Net investments in financial assets at fair value through other comprehensive income	20 027 605	-	-	-	20 027 605
9. Current income tax assets	27 825	-	-	-	27 825
10. Deferred income tax asset	98 478	-	-	-	98 478
11. Property and equipment, intangible assets and inventories	4 884 838	-	-	-	4 884 838
13. Other assets	742 957	947	-	-	743 904
14. Total assets	<u>52 853 368</u>	<u>83 836 369</u>	<u>45 867 609</u>	<u>1 870 092</u>	<u>184 427 438</u>
II. LIABILITIES					
15. Loans, deposits and other balances due to the Central Bank of the Russian Federation	-	103	97	-	200
16. Customer accounts at amortized cost	38 515 499	83 403 925	35 567 682	1 814 633	159 301 739
16.1. due to credit institutions	36 266 847	67 064 353	33 522 579	720 344	137 574 123
16.2. customer accounts (other than credit institutions)	2 248 652	16 339 572	2 045 103	1 094 289	21 727 616
21. Other liabilities	12 342 070	422 800	28 202	48 011	12 841 083
22. Allowance for losses under loan commitments, other losses and transactions with offshore residents	20	-	-	-	20
23. Total liabilities	<u>50 857 589</u>	<u>83 826 828</u>	<u>35 595 981</u>	<u>1 862 644</u>	<u>172 143 042</u>
Total balance sheet position	<u>1 995 779</u>	<u>9 541</u>	<u>10 271 628</u>	<u>7 448</u>	<u>12 284 396</u>
Off-balance sheet position	<u>10 323 955</u>	<u>-297</u>	<u>-10 304 013</u>	<u>-</u>	<u>19 645</u>
Aggregate position	<u>12 319 734</u>	<u>9 244</u>	<u>-32 385</u>	<u>7 448</u>	<u>12 304 041</u>

As at 1 January 2019:

	RUB	USD	EUR	Other currencies	Total
I. ASSETS					
1. Cash	1 713	-	509	-	2 222
2. Balances with the Central Bank of the Russian Federation	3 178 121	-	-	-	3 178 121
3. Due from credit institutions	26 850 400	63 987 440	17 045 578	455 832	108 339 250
4. Financial assets at fair value through profit or loss	12 106 377	-	-	-	12 106 377
6a. Net investments in securities and other financial assets available for sale	9 233	-	-	-	9 233
9. Current income tax assets	11 000	-	-	-	11 000
10. Deferred income tax asset	109 973	-	-	-	109 973
11. Property and equipment, intangible assets and inventories	4 902 521	-	-	-	4 902 521
13. Other assets	703 397	-	196	-	703 593
14. Total assets	<u>47 872 735</u>	<u>63 987 440</u>	<u>17 046 283</u>	<u>455 832</u>	<u>129 362 290</u>
II. LIABILITIES					
15. Loans, deposits and other balances due to the Central Bank of the Russian Federation	-	123	111	-	234
16.1. Due to credit institutions	30 114 383	35 388 500	9 648 688	356 288	75 507 859
16.2. Customer accounts (other than credit institutions)	3 631 882	12 304 670	987 646	85 135	17 009 333
19. Current income tax liabilities	40 677	-	-	-	40 677
21. Other liabilities	9 121 123	16 323 334	90 156	1 628	25 536 241
22. Allowance for losses under loan commitments, other losses and transactions with offshore residents	21	-	-	-	21
23. Total liabilities	<u>42 908 086</u>	<u>64 016 627</u>	<u>10 726 601</u>	<u>443 051</u>	<u>118 094 365</u>
Total balance sheet position	<u>4 964 649</u>	<u>-29 187</u>	<u>6 319 682</u>	<u>12 781</u>	<u>11 267 925</u>
Off-balance sheet position	<u>6 356 569</u>	<u>27 591</u>	<u>-6 356 840</u>	<u>-</u>	<u>27 320</u>
Aggregate position	<u>11 321 218</u>	<u>-1 596</u>	<u>-37 158</u>	<u>12 781</u>	<u>11 295 245</u>

The table below analyzes the effect of possible fluctuations in exchange rates on NSD's net profit and equity based on its open currency positions as at 1 January 2020 and 1 January 2019. The calculation is based on the assumption that RUB/USD rate and RUB/EUR rate may change by 25% (as at 1 January 2018: 15% and 20%, respectively).

	01.01.2020		01.01.2019	
	USD	EUR	USD	EUR
	25%	25%	15%	20%
RUB appreciation	-1 849	6 477	191	5 945
RUB depreciation	1 849	-6 477	-191	-5 945

4.6.2. Interest rate risk

NSD measures interest rate risk using its aggregate assets and liabilities that are sensitive to fluctuations in the market rate of interest. The main approach to the interest rate risk assessment is based on the duration method. The interest rate risk can be managed due to the establishment of structural limits such as limits on certain instruments sensitive to interest rate changes.

NSD measures its interest rate risk for purposes of capital adequacy analysis performed in accordance with CBR Regulation No. 511-P of 3 December 2015 "Market risk assessment in credit organizations" (hereinafter, "Regulation No. 511-P"). Interest rate risk values are presented in the table below:

Financial instrument	01.01.2020	01.01.2019
OFZ of the RF Ministry of Finance	-	124 726
Total	-	124 726

The table below analyzes the effect of fluctuations in the market rate of interest on NSD's net profit and equity. The calculation is based on the assumption that the interest rate may increase/decrease by 150 basis points, which represents management's assessment of reasonably possible fluctuations in interest rates.

	01.01.2020		01.01.2019	
	Net profit	Capital	Net profit	Capital
Increase by 150 basis points	-	-169 880	-164 193	-164 193
Decrease by 150 basis points	-	175 232	167 762	167 762

4.6.3. Price risk

Price risk occurs because of adverse changes in the market value of securities in NSD's portfolio.

Price risk is assessed based on the value of FVTPL and FVTOCI securities where there is an intention to settle them in the short term as specified in NSD's internal documents.

A Value-at-Risk approach is used for the price risk assessment; a basis point value and duration are also calculated.

As at 1 January 2020 the total aggregate market risk including interest rate and currency risks calculated in accordance with CBR Regulation No. 511-P totaled RUB 0 thousand (as at 1 January 2019: RUB 1 559 075 thousand).

As at January 1, 2020 equity required to cover NSD's market risk in accordance with CBR Instruction No. 129-I was RUB 0 thousand (as at 1 January 2019: RUB 187 089 thousand).

4.7. Credit risk

NSD assumes that its credit risks arises from:

- Investments of temporarily available funds with counterparties;
- Operations for provision of services to clients/counterparties that require no prepayment by the clients/counterparties;
- Administrative and business and other transactions with counterparties that require prepayment by NSD;
- Other investments involving credit risks for which allowances for possible losses are created in accordance with Regulation of the Bank of Russia No. 590-P On the Procedure for Establishing Reserves by Credit Organizations against Losses on Loans, Loan and Equivalent Debts dated 28 June 2017 (hereinafter, Regulation No. 590-P) or Regulation No. 611-P, and allowances for expected credit losses in accordance with IFRS 9.

NSD's credit risk assessment includes the assessment of the credit portfolio and other assets involving credit risks (portfolio analysis) as well as the assessment of credit risks related to specific counterparties.

The portfolio analysis is the analysis of changes in the structure of assets exposed to credit risk and credit risk concentration. The evaluation of the quality of the credit portfolio enables a judgment to be made of the possibility of the credit risk on assets and an estimate of expected losses. The analysis of the credit risk concentration enables an assessment to be made of the credit portfolio diversification level by counterparty.

NSD's counterparty assessment is made in accordance with an expert evaluation of the counterparties' credit risks based on the analysis of their respective financial statements and other available information about their activity. The expert evaluation results include an analytical report containing conclusions on the level of the counterparty's credit quality, the acceptability of parameters of planned transactions and proposed risk mitigation techniques by counterparty.

Methods of credit risk management include:

- Establishment of the limits for counterparty banks;
- Creation of allowances for possible losses.

The Risk Management Department of NSD prepares the report on financial risks including information about the credit risk on a monthly basis and presents it to the Management Board and the Supervisory Board of NSD.

The table below shows the credit quality of NSD's assets in accordance with IFRS 9 at 1 January 2020:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Created or acquired credit- impaired financial assets	Total
1. Cash	1 975	-	-	-	1 975
2. Balances with the Central Bank of the Russian Federation	2 163 126	-	-	-	2 163 126
3. Due from credit institutions	156 454 123	-	-	-	156 454 123
6. Net investments in financial assets at fair value through other comprehensive income	20 027 605	-	-	-	20 027 605
13. Other assets	618 911	613	5 810	-	625 334
Total gross carrying value	179 265 740	613	5 810	-	179 272 163

The table below shows the quality of NSD's assets classified individually in accordance with Regulation No. 611-P and Regulation No. 590-P. The data is presented based on reporting form 0409115 "Information on Asset Quality of a Credit Organization", set by the Bank of Russia Directive No. 4212-U.

As at 1 January 2019:

Asset	Quality category 1	Quality category 2	Quality category 3	Quality category 4	Quality category 5
Receivable from credit organizations – total, including:	108 725 163	108 663 213	-	23 068	-
correspondent accounts	59 076 307	59 075 177	-	1 130	-
other assets	49 648 511	49 587 691	-	21 938	-
interest income receivable on receivable from credit organizations	345	345	-	-	-
Receivable from legal entities (non-credit organizations) – total, including:	333 489	287 088	-	13 423	-
investments in securities	6 551	6 551	-	-	-
other assets	326 938	280 537	-	13 423	-
Loans to individuals and other receivable from individuals – total, including:	23	-	-	-	23
other assets	23	-	-	-	23
Assets reviewed for purposes of allowance losses, total	109 058 675	108 950 301	-	36 491	-
					71 883

The tables below present total payables to NSD under contracts with past due payments.

As at 1 January 2020:

	1-30 days past due	31-90 days past due	91-180 days past due	Over 180 days past due
Receivable from credit organizations – total, including:	41 010	704	38	2 496
other assets	41 010	704	38	2 496
Receivable from legal entities (non-credit organizations) - total, including:	4 421	115	96	2 800
other assets	4 421	115	96	2 800
Assets reviewed for purposes of allowance losses, total	45 431	819	134	5 296

As at 1 January 2019:

	1-30 days past due	31-90 days past due	91-180 days past due	Over 180 days past due
Receivable from credit organizations – total, including:	16 691	1 122	153	5 678
other assets	16 691	1 122	153	5 678
Receivable from legal entities (non-credit organizations) - total, including:	10 118	650	108	3 328
other assets	10 118	650	108	3 328
Assets reviewed for purposes of allowance losses, total	26 809	1 772	261	9 006

The tables below show allowance for expected credit losses calculated under IFRS 9 as at 1 January 2020:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Created or acquired credit- impaired financial assets	Total
2. Balances with the Central Bank of the Russian Federation	23	-	-	-	23
3. Due from credit institutions	7	-	-	-	7
6. Net investments in financial assets at fair value through other comprehensive income	6 757	-	-	-	6 757
13. Other assets	5 986	7	5 810	-	11 803
Total allowance	12 773	7	5 810	-	18 590

The table below reflects the amount of estimated and actual allowance for NSD's assets classified individually in accordance with Regulation No. 611-P and Regulation No. 590-P as at 1 January 2019:

	Calculated allowance	Calculated allowance reduced for collateral value	Recognized allowance, total	Allowance for quality category 2	Allowance for quality category 3	Allowance for quality category 4	Allowance for quality category 5
Receivable from credit organizations – total, including:							
correspondent accounts	50 416	49 851	50 416	-	11 534	-	38 882
other assets	565	-	565	-	565	-	-
Receivable from legal entities (non-credit organizations) – total, including:	49 851	49 851	49 851	-	10 969	-	38 882
other assets	39 690	39 690	39 690	-	6 712	-	32 978
Loans to individuals and other receivable from individuals – total, including:	39 690	39 690	39 690	-	6 712	-	32 978
other assets	23	23	23	-	-	-	23
	23	23	23	-	-	-	23
Assets reviewed for purposes of allowance losses, total	90 129	89 564	90 129	-	18 246	-	71 883

The NSD's maximum exposure to credit risk equals to the carrying value of financial assets exposed to credit risk.

The Risk Management Department of NSD prepares the report on financial risks including information about market risks on a monthly basis and presents it to the Management Board and the Supervisory Board of NSD. The Risk Management Department also prepares the report on monitoring indicators of market changes and security portfolio to inform the management on the market and credits risks.

4.8. Operational risk

The sources of operational risk in NSD include:

- Improper/unlawful conduct by employees of NSD (including internal fraud);
- Shortcomings in the organizational structure and internal documents of NSD in terms of the delegation of authority to divisions and employees, rules and procedures for transactions and their documentation and recognition, non-compliance with established rules and procedures by NSD's employees, inefficiency of internal controls (risk of internal processes);
- Malfunction of systems and equipment (risk of information technologies);
- Adverse external events beyond NSD's control (including external fraud, cyber and other crimes, man-made and natural disasters).

The operational risk management in NSD is performed in accordance with Directive of the Bank of Russia No. 3624-U, the requirements and recommendations of the Bank of Russia specified in Letter of the Bank of Russia No. 76-T dated 24 May 2005 "On the Operational Risk Management in Credit Organizations".

The main methods of operational risk management include:

- Development of the organizational structure, internal rules and procedures for transactions, delegation of authority, approval (agreement) and accountability for the transactions in a way that allows eliminating (minimizing) exposure to the operational risk;
- Development of controls taking into account the results of the analysis of statistical data performed to identify operational risks typical for NSD based on the repeated operational risk issues;
- Control over the compliance with the established rules and procedures as part of the internal control system;
- Development of transaction and data protection automation technology;
- Insurance, including both traditional types of property and personal insurance (insurance of buildings, other property (including currency values and internal securities) against destruction, damage and loss caused by natural disasters and other random events, or through actions of third parties or employees of NSD; insurance of employees against accidents and injury to health), and insurance against occupation-specific risks, both comprehensive risk insurance and by individual risk;
- Development of a system of measures to ensure continuity of financial and business operations, including contingency plans (business continuity plan and/or business recovery plan).

The methods of management of the operational risk arising from a combination of various types of activities by NSD include processes preventing the use of confidential information:

- Ensure territorial, organizational and technical, functional, information isolation of NSD divisions involved in various types of professional activity;
- Develop measures to differentiate rights to transactions in performing various types of activity;
- Prevent employees from other NSD divisions involved in other types of activity from access to the available confidential information;
- Develop measures to establish liability for the provision of confidential information to employees of other NSD divisions involved in other types of activity.

The procedures preventing the use of confidential information related to various types of NSD' activity are described in internal regulations on interaction between divisions.

The operational risk management procedures are determined by the Regulation on Non-Financial Risk Management of NSD JSC and other internal documents of NSD.

NSD estimates the operational risk for the purposes of equity (capital) adequacy calculation in accordance with Regulation of the Bank of Russia No. 652-P dated 3 September 2018 "On the Procedure for Operational Risk Estimation" (as at 1 January 2019: Regulation of the Bank of Russia No. 346-P of 3 November 2009). Below are the values of operational risk and its components:

Item description	01.01.2020	01.01.2019
Operational risk, total, including:	943 734	1 126 759
Income for the purposes of calculation of capital to cover		
operational risk, total, including:	6 291 560	7 511 726
net interest income	1 691 998	2 244 268
net non-interest income	4 599 562	5 267 458

In the course of internal assessment of operational risk for various business lines, processes and products, NSD may use other qualitative and quantitative methods, as determined by the Management Board.

5. RELATED PARTY TRANSACTIONS

In the disclosures below, a "related party" is used in the meaning given to it in IAS 24 *Related Party Disclosures*, which was adopted by Russia on 28 December 2015 by the Ministry of Finance Order No. 217n.

NSD's key management personnel comprises members of the Supervisory Board, Chairman of the Management Board and members of the Management Board. The total compensation paid to the key management personnel includes short-term benefits (salary, bonuses, payroll taxes, insurance, health care, etc.) and long-term benefits.

NSD's balance sheet includes the following significant amounts that resulted from transactions with key management personnel and their immediate family members:

	As at 1 January 2020	As at 1 January 2019
II. LIABILITIES		
21. Other liabilities	130 510	103 840

Included in the statement of financial results of NSD are the following significant income and expenses that arose due to transactions with key management personnel:

	2019	2018
21. Operating expenses	210 120	170 264
short-term employee benefits	198 675	162 527
long-term employee benefits	11 445	7 737

As at 1 January 2020, Russia was significant for NSD's business. NSD considers government-related entities as related parties if the Russian Federation has direct or indirect control or significant influence over the organization.

Included in the balance sheet of NSD are the following significant amounts that arose due to transactions with related parties.

As at 1 January 2020:

	Parent company	Other companies of the Moscow Exchange Group	Other government- related companies
I. ASSETS			
1. Cash	-	-	1 532
2. Balances with the Central Bank of the Russian Federation	-	-	2 163 103
3. Due from credit institutions	-	135 717 588	49 699
4. Financial assets at fair value through profit or loss	-	19 615	-
6. Net investments in financial assets at fair value through other comprehensive income	-	-	20 027 605
13. Other assets	2 674	51 505	272 939
II. LIABILITIES			
15. Loans, deposits and other balances due to the Central Bank of the Russian Federation	-	-	200
16.1. Due to credit institutions	-	74 898 667	48 239 051
16.2. Customer accounts (other than credit institutions)	433 353	1 200	5 459 283
21. Other liabilities	19 486	9 227	9 465 938
IV.OFF-BALANCE SHEET COMMITMENTS			
37. Irrevocable commitments of credit organization	-	10 801 416	284 908

As at 1 January 2019:

	Parent company	Other companies of the Moscow Exchange Group	Other government- related companies
I. ASSETS			
1. Cash	-	-	1 714
2. Balances with the Central Bank of the Russian Federation	-	-	3 178 121
3. Due from credit institutions	-	75 066 969	48 084
4. Financial assets at fair value through profit or loss	-	-	12 106 377
13. Other assets	1 816	57 766	220 853
II. LIABILITIES			
15. Loans, deposits and other balances due to the Central Bank of the Russian Federation	-	-	234
16.1. Due to credit institutions	-	32 505 276	14 874 975
16.2. Customer accounts (other than credit institutions)	979 463	769 820	3 879 751
21. Other liabilities	18 695	215	22 310 966
IV.OFF-BALANCE SHEET COMMITMENTS			
37. Irrevocable commitments of credit organization	-	17 856 159	-

Included in the statement of financial results of NSD are the following significant income and expenses that arose due to transactions with related parties:

For 2019:

	Parent company	Other companies of the Moscow Exchange Group	Other government- related companies
1. Interest income, total, including:	-	-	1 221 791
1.1. due from credit organizations	-	-	60 163
1.4. investments in securities	-	-	1 161 629
4. Change in allowance for losses and allowance for expected credit losses on loans and loan equivalents, balances on correspondent accounts and accrued interest income, total, including:	-	-	538
4.1. change in allowance for losses and allowance for expected credit losses on accrued interest income	-	-	281
6. Net gain on financial assets at fair value through profit or loss	-	2 346 014	47 098
8. Net gain on securities at fair value through other comprehensive income	-	-	-14 153
10. Net gain on foreign exchange operations	-	-23 043	147
14. Fee and commission income	9 740	331 718	2 625 674
15. Fee and commission expense	8 992	103 586	25 806
16. Change in allowance for losses and allowance for expected credit losses on securities measured at fair value through other comprehensive income	-	-	-7 038
18. Change in allowance for other losses	-	4	34 931
19. Other operating income	11 840	14 002	1 413
21. Operating expenses	77 891	-	23 859

For 2018:

	Parent company	Other companies of the Moscow Exchange Group	Other government- related companies
1. Interest income, total, including:	-	-	1 604 519
1.1. due from credit organizations	-	-	165 668
1.4. investments in securities	-	-	1 438 852
6. Net gain on financial assets at fair value through profit or loss	-	10 450	-72 474
10. Net gain on foreign exchange operations	-	1 143 793	564
14. Fee and commission income	7 159	239 137	2 360 978
15. Fee and commission expense	10 973	7 498	64 722
18. Change in allowance for other losses	-	59	-8 434
19. Other operating income	11 589	13 933	7 304
21. Operating expenses	18 698	-	21 846

During 2019 and 2018, NSD carried exchange and over-the-counter currency swap transactions with a related party, a company belonging to the Moscow Exchange Group. Net comprehensive financial result from these transactions included in "Net gain on financial assets at fair value through profit or loss", "Net gain on FX transactions" and "Net gain on foreign currency revaluation" in the statement of financial results totaled RUB 1 274 795 thousand (2018: RUB 177 192 thousand).

The terms of NSD's significant related party transactions are in line with the terms of transactions with other counterparties.

6. SUBSEQUENT EVENTS

In March 2020, there was a significant depreciation of the Russian Ruble against the major foreign currencies, and a decline in quotations of Russian government bonds.

Amidst these fluctuations NSD maintained the open currency position at less than 0.5% of the regulatory capital adequacy ratio and had no necessity to sell government bonds from its portfolio.

Therefore, the management assesses the effect of these events on NSD's financial position as insignificant.

Chairman of the Management Board

E.V. Astanin

Chief Accountant –
Accounting and Financial
Reporting Director

I.E. Veremeenko

27 March 2020