Independent auditor's report
on the financial statements of
Bank National Clearing Centre
Joint Stock Company
for 2016

April 2017

Translation of the original Russian version

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Independent auditor's report

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To the shareholder and Supervisory Board of
Bank National Clearing Centre Joint Stock Company

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Bank National Clearing Centre Joint Stock Company, which comprise the statement of financial position as at 31 December 2016, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for 2016, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016 and its financial performance and its cash flows for 2016 in accordance with International Financial Reporting Standards (IFRSs).

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 Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Russian Federation, and 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.

Responsibilities of management and Supervisory Board for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

Supervisory Board are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Bank'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 Bank'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 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the 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 Supervisory Board 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.

Report in accordance with the requirements of Article 42 of the Federal Law of the Russian Federation No. 395-1 *Concerning Banks and Banking Activity* of 2 December 1990

Management of the Bank is responsible for the compliance of the Bank with the mandatory prudential ratios (hereinafter, the "obligatory ratios") established by the Central Bank of the Russian Federation (hereinafter, the "Bank of Russia") and for the conformity of internal control and organization of the risk management systems of the Bank with the requirements set forth by the Bank of Russia in respect of such systems.

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In accordance with the requirements of Article 42 of the Federal Law of the Russian Federation No. 395-1 *Concerning Banks and Banking Activity* of 2 December 1990 (hereinafter, the "Federal Law"), during the audit of the Bank's financial statements for the year ended 31 December 2016, we determined:

1) Whether the Bank complied as at 1 January 2017 with the obligatory ratios established by the Bank of Russia;

2) Whether internal control and organization of the risk management systems of the Bank conformed to the requirements set forth by the Bank of Russia for such systems in respect of the following:

   - subordination of the risk management departments;
   - the existence of methodologies, approved by the Bank's respective authorized bodies, for detecting and managing risks that are significant to the Bank and for performing stress-testing; the existence of a reporting system at the Bank pertaining to its significant risks and capital;
   - consistency in applying and assessing the effectiveness of methodologies for managing risks that are significant to the Bank;
   - oversight performed by the Board of Directors and executive management of the Bank in respect of the Bank's compliance with risk limits and capital adequacy requirements set forth in the Bank's internal documents, and effectiveness and consistency of the application of the Bank's risk management procedures.

This work included procedures selected based on our judgment, such as inquiries, analysis, reading of documents, comparison of the requirements, procedures and methodologies approved by the Bank with the requirements set forth by the Bank of Russia, and the recalculation, comparison and reconciliation of numerical values and other information.

The findings from our work are provided below.

Compliance by the Bank with the obligatory ratios established by the Bank of Russia

We found that the values of the obligatory ratios of the Bank as of 1 January 2017 were within the limits established by the Bank of Russia.

We have not performed any procedures in respect of accounting data of the Bank, except for those procedures we considered necessary to express our opinion on the fair presentation of the Bank's financial statements.

Conformity of internal control and organization of the risk management systems of the Bank with the requirements set forth by the Bank of Russia in respect of such systems

- We found that, in accordance with the legal acts and recommendations issued by the Bank of Russia, as at 31 December 2016 the Bank's internal audit division was subordinated and accountable to the Supervisory Board, and the Bank's risk management departments were not subordinated or accountable to the departments that take the relevant risks.

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- We found that the Bank's internal documents effective as at 31 December 2016 that establish the methodologies for detecting and managing (currency risk, interest rate risk, price risk, liquidity risk, credit risk, operational risk) that are significant to the Bank and stress-testing have been approved by the Bank's authorized bodies in accordance with the legal acts and recommendations issued by the Bank of Russia. We also found that, as at 31 December 2016, the Bank had a reporting system pertaining to (currency risk, interest rate risk, price risk, liquidity risk, credit risk, operational risk) that were significant to the Bank and pertaining to its capital.

- We found that the frequency and consistency of reports prepared by the Bank's risk management departments and internal audit division during the year ended 31 December 2016 with regard to the management of (currency risk, interest rate risk, price risk, liquidity risk, credit risk, operational risk) of the Bank with the Bank's internal documents, and that those reports included observations made by the Bank's risk management departments and internal audit division in respect of the effectiveness of relevant risk management methodologies as well as recommendations on their improvement.

- We found that, as at 31 December 2016, the authority of the Supervisory Board and executive management bodies of the Bank included control over compliance of the Bank with internally established risk limits and capital adequacy requirements. For the purpose of control over the effectiveness and consistency of the risk management procedures applied by the Bank during the year ended 31 December 2016, the Supervisory Board and executive management bodies of the Bank regularly reviewed the reports prepared by the Bank's risk management departments and internal audit division and measures suggested to address the findings.

The procedures pertaining to the internal control and organization of the risk management systems were conducted by us solely for the purpose of determining the conformity of certain elements of the internal control and organization of the risk management systems of the Bank as listed in the Federal Law and described above, with the requirements set forth by the Bank of Russia.

E.V. ZAICHIKOVA
Partner
Ernst & Young Vneshaudit LLC

7 April 2017

Details of the audited entity

Name: Bank National Clearing Centre Joint Stock Company
Record made in the State Register of Legal Entities on 30 May 2006, State Registration Number 1067711004481.
Address: Russia 125009, Moscow, Bolshoi Kislovsky per., 13.

Details of the auditor

Name: Ernst & Young Vneshaudit LLC
Record made in the State Register of Legal Entities on 4 February 2016, State Registration Number 1167746123478.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young Vneshaudit LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young Vneshaudit LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050953.

Bank National Clearing Centre (JSC)
Statement of comprehensive income
(in thousands of Russian rubles)

	Notes	Year ended December 31, 2016	Year ended December 31, 2015
Interest income	5	20 147 249	23 413 828
Interest expense	5	(593 579)	(281 608)
Net interest income		**19 553 670**	**23 132 220**
Fee and commission income	6	6 434 719	5 629 618
Net gain / (loss) on financial assets available-for-sale		1 595 370	(131 627)
Net (loss) / gain on foreign exchange operations	7	(369 690)	298 143
Other income		4 865	31 524
Operating Income		**27 218 934**	**28 959 878**
Personnel expenses	8	(638 588)	(688 821)
Administrative and other operating expenses	9	(777 489)	(730 236)
Profit before Tax		**25 802 857**	**27 540 821**
Income tax expense	10	(4 871 463)	(5 270 058)
Net Profit		**20 931 394**	**22 270 763**
Other comprehensive income that may be reclassified subsequently to profit or loss			
Revaluation of financial assets available-for-sale		1 693 834	2 307 372
Net (gain) / loss on investments available-for sale reclassified to profit or loss		(1 595 370)	131 627
Deferred income tax		(19 693)	(487 800)
Other comprehensive income that may be reclassified subsequently to profit or loss		**78 771**	**1 951 199**
Total comprehensive income		**21 010 165**	**24 221 962**

On behalf of the Management Board of the Bank

Chairman of the Management Board
Khavin Alexey Sergeevich

April 7, 2017
Moscow

Bank «Национальный Клиринговый Центр» (Акционерное общество)
Bank National Clearing Centre (Joint-stock company)
БАНК
НКЦ (АО)
МОСКВА

Chief Accounting Officer
Gorina Marina Petrovna

April 7, 2017
Moscow

Notes 1-25 form an integral part of these financial statements.

Bank National Clearing Centre (JSC)

Statement of financial position

(in thousands of Russian rubles)

	Notes	December 31, 2016	December 31, 2015
ASSETS			
Cash and cash equivalents	11	375 102 062	936 243 414
Mandatory cash balances with Central Bank of the Russian Federation		3 240 788	1 792 154
Due from banks and other financial institutions	12	55 968 053	40 213 989
Financial assets of central counterparty	13	1 733 263 848	518 509 253
Financial assets available-for-sale	14	205 639 372	161 145 179
Property and equipment and intangible assets	15	103 522	96 807
Deferred tax assets	10	1 723 939	-
Other assets	16	806 450	928 627
Total assets		**2 375 848 034**	**1 658 929 423**
LIABILITIES			
Customer accounts	17	583 566 219	1 075 556 883
Margin account under reverse repo	12	-	417 707
Financial liabilities of central counterparty	13	1 733 263 848	518 509 253
Deferred tax liabilities	10	-	1 670 166
Current income tax liabilities		883 189	339 003
Other liabilities	18	596 458	537 438
Total liabilities		**2 318 309 714**	**1 597 030 450**
EQUITY			
Share capital	19	16 670 000	16 670 000
Paid-in capital	19	347 144	347 144
Investments revaluation reserve		942 571	863 800
Payments based on the shares of the parent company		44 685	46 347
Retained earnings		39 533 920	43 971 682
Total equity		**57 538 320**	**61 898 973**
Total liabilities and equity		**2 375 848 034**	**1 658 929 423**

Notes 1-25 form an integral part of these financial statements.

Bank National Clearing Centre (JSC)

Statement of cash flows

(in thousands of Russian rubles)

	Notes	Year ended December 31, 2016	Year ended December 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before tax		25 802 857	27 540 821
Adjustments for:			
(Gain) / loss from disposal of financial assets available-for-sale		(1 595 370)	131 627
Change in interest accruals, net		167 288	(1 943 553)
Net change in deferred commission income		(40 666)	239 707
Unrealized gain on foreign exchange operations		(149 433)	(75 112)
Other accruals		40 612	84 040
Depreciation and amortization charge	9	44 402	39 675
Payments based on the shares of the parent company	8	29 094	42 022
Cash flows from operating activities before changes in operating assets and liabilities		**24 298 784**	**26 059 227**
Changes in operating assets and liabilities:			
Mandatory cash balances with Central Bank of the Russian Federation		(1 448 634)	183 917
Due from banks and other financial institutions		(25 462 250)	5 405 572
Financial assets of central counterparty		(1 214 754 595)	(364 211 427)
Other assets		159 026	(713 035)
Customer accounts		(383 087 660)	(290 703 708)
Margin account under reverse repo		(417 696)	417 696
Financial liabilities of central counterparty		1 214 754 595	364 211 427
Other liabilities		29 229	(283 645)
Net cash flows used in operating activities before income tax		(385 929 201)	(259 633 976)
Income tax paid		(7 741 075)	(4 981 714)
Cash flows used in operating activities		**(393 670 276)**	**(264 615 690)**
CASH FLOWS USED IN INVESTING ACTIVITIES:			
Purchase of financial assets available-for-sale		(196 303 670)	(161 161 592)
Proceeds from sale of financial assets available-for-sale		135 698 619	95 539 624
Purchase of property and equipment and intangible assets	15	(51 130)	(51 220)
Net cash flows used in investing activities		**(60 656 181)**	**(65 673 188)**

Notes 1-25 form an integral part of these financial statements.

(in thousands of Russian rubles)

	Notes	Year ended December 31, 2016	Year ended December 31, 2015
Dividends paid		(25 399 912)	-
Cash flows used in financing activities		**(25 399 912)**	**-**
Effect of changes in foreign exchange rates on cash and cash equivalents		(80 513 532)	163 378 283
Net decrease in cash and cash equivalents		**(560 239 901)**	**(166 910 595)**
Cash and cash equivalents, beginning of the year	11	**935 341 963**	**1 102 252 558**
Cash and cash equivalents, end of the period	11	**375 102 062**	**935 341 963**

Interest paid and received for the year ended 31 December 2016, amounted to RUB 467 512 thousand and RUB 20 188 470 thousand respectively.

Interest paid and received for the year ended 31 December 2015 amounted to RUB 294 720 thousand and RUB 20 973 731 thousand, respectively.

Bank National Clearing Centre (JSC)
Statement of changes in equity
(in thousands of Russian rubles)

	Notes	Share capital	Paid-in capital	Investments revaluation reserve	Payments based on the shares of the parent	Retained earnings	Total equity
December 31, 2014		**16 670 000**	**347 144**	**(1 087 399)**	**32 187**	**21 673 057**	**37 634 989**
Comprehensive income for the period		**-**	**-**	**1 951 199**	**-**	**22 270 763**	**24 221 962**
Transactions with owners							
Payments based on the shares of the parent company	8	-	-	-	14 160	27 862	42 022
Total transactions with owners		**-**	**-**	**-**	**14 160**	**27 862**	**42 022**
December 31, 2015		**16 670 000**	**347 144**	**863 800**	**46 347**	**43 971 682**	**61 898 973**
Comprehensive income for the period		**-**	**-**	**78 771**	**-**	**20 931 394**	**21 010 165**
Transactions with owners							
Dividends declared		-	-	-	-	(25 399 912)	(25 399 912)
Payments based on the shares of the parent company	8	-	-	-	(1 662)	30 756	29 094
Total transactions with owners		**-**	**-**	**-**	**(1 662)**	**(25 369 156)**	**(25 370 818)**
December 31, 2016		**16 670 000**	**347 144**	**942 571**	**44 685**	**39 533 920**	**57 538 320**

1. Organization

Bank National Clearing Centre (Joint-stock company) (the "Bank" or NCC) is a joint-stock bank, which was incorporated in the Russian Federation in 2006. The Bank is regulated by the Central Bank of the Russian Federation ("Bank of Russia") and conducts its banking and clearing activities under general license No.3466 and license No. 077-00003-000010, respectively.

In March 2015 the business name CJSC JSCB National Clearing Centre was changed to Bank National Clearing Centre (Joint-stock company).

The Bank is a member of Moscow Exchange Group ("Group") and as at 31 December 2016 and 31 December 2015, 100% of the Bank's shares are held by PJSC Moscow Exchange MICEX-RTS ("Moscow Exchange").

The Bank acts as a central counterparty (CCP) and specializes in providing clearing services on foreign exchange and precious metals market, securities, derivatives, commodity markets and standardized OTC derivatives market, including determination and measurement of liabilities of clearing participants, setting off and settling them.

The registered office of the Bank is located at: 13, Bolshoy Kislovsky per., Moscow, 125009, Russian Federation.

2. Basis of presentation

Significant accounting policies

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), including all Interpretations originated by the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of presentation

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future.

These financial statements are presented in thousands of Russian rubles ("RUB thousand"). These financial statements have been prepared on a historical cost basis, except for certain financial instruments that are measured at fair value.

The Bank maintains its accounting records in accordance with Russian Accounting Standards ("RAS"). These financial statements have been prepared from the Bank's statutory accounting records and have been adjusted to conform to IFRS. The main adjustments include recognition of deferred taxes and financial assets and liabilities of central counterparty.

3. Significant accounting policies

Recognition of revenue

Fee and commission income

Fee and commission income is recognized when services are provided. Revenue for services provided over a period is recognized pro rata over the period.

Interest income recognition

Interest income is recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the relevant period.

The effective interest rate is the rate used to discount estimated future cash payments or receipts to the net carrying amount of a financial asset.

3. Significant accounting policies (continued)

Recognition of revenue (continued)

Once a financial asset or a group of similar financial assets has been written down (partially written down) as a result of impairment, interest income is thereafter recognized by applying the interest rate used to discount future cash flows for the purpose of measuring the impairment loss.

Interest earned on central counterparty financial assets is presented net of interest expense incurred in respect of the offsetting financial liabilities within interest income and expense.

Financial instruments

Financial assets and liabilities are recognized in the Bank's statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. The Bank recognizes regular purchases and disposals of financial assets and liabilities using settlement date accounting.

Financial assets and liabilities are initially recognized at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets or financial liabilities (other than financial assets and liabilities at fair value through profit or loss) are added to or deducted from the fair value of financial assets or liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of the financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

Financial assets are classified into the following categories: financial assets ‘at fair value through profit or loss’ ("FVTPL"); 'held-to-maturity' ("HTM"); 'available-for-sale' ("AFS") and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss

Financial assets are classified as at FVTPL when the financial asset is held for trading.

Financial asset is classified as held for trading if:

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 22.

Investments held-to-maturity

Investments held-to-maturity are financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity. Investments held-to-maturity are measured at amortized cost using the effective interest method less any impairment.

If the Bank were to sell or reclassify more than an insignificant amount of investments held-to-maturity before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

3. Significant accounting policies (continued)

Financial assets (continued)

Financial assets available-for-sale

Financial assets available-for-sale are financial assets that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

After initial recognition available-for-sale financial assets are stated at fair value. Fair value is determined in the manner described in Note 22. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest income calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. If a financial asset is disposed of or is determined to be impaired, cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Loans and receivables

Loans and receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been negatively affected.

For financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as refusal or evasion from payments of interest or principal;
- Default or delinquency in interests or principal payments; or
- It becomes probable that the debtor will enter bankruptcy or financial reorganization; or
- Disappearance of an active market for that financial asset as a result of financial difficulties.

For financial assets carried at amortized cost, the amount of impairment loss recognized is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate.

For financial assets carried at cost, the amount of impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When considered uncollectible, loans and receivables are written off against the allowance.

3. Significant accounting policies (continued)

Financial assets (continued)

Derecognition of financial assets

A financial asset (or, where applicable a part of the financial asset or part of a group of similar financial assets) is derecognized where:

- Rights to receive cash flows from the asset have expired;
- The Bank has transferred its rights to receive cash flows from the asset or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement;
- The Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

After a transfer, the Bank reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the balance sheet. If substantially all the risks and rewards have been neither retained nor transferred, the Bank assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Bank retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Offsetting of financial assets

Financial assets and financial liabilities are offset and the net amount is reported in the Consolidated Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- the normal course of business;
- the event of default; and
- the event of insolvency or bankruptcy of the entity and all of the counterparties.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with the CBR, unrestricted balances on correspondent and deposit accounts with banks with maturity up to one business day, brokerage accounts, and balances on the Bank's clearing accounts. Accrued interest on the above balances that is receivable in more than one business day is excluded from cash and cash equivalents the purpose of statement of cash flows. Amounts that are subject to restrictions on their availability, including minimum reserve deposits with the CBR, are not included in cash and cash equivalents.

Financial assets and liabilities of central counterparty

The Bank acts as a central counterparty and guarantees settlements of certain exchange transactions. Assets and liabilities on such deals that may be offset against a clearing participant are reported net in accordance with IAS 32 and are recognized in the statement of financial position at the net fair value based on daily settlement prices, except for repo transactions, which are measured at amortized cost.

Collateral provided by central counterparty

The Bank guarantees settlement of certain traded contracts and applies a multi-level collateral system. The key component of this approach is daily determination of the overall risk per clearing participant (margin) that should be covered by collateral in the form of cash, securities or commodities (individual or other clearing collateral).

In addition to such daily security deposits, a clearing participants, are required to make contributions to guarantee funds as described in Note 24.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

3. Significant accounting policies (continued)

Financial liabilities (continued)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss (FVTPL) include CCP liabilities under overnight currency transactions outstanding as at reporting date. Financial liabilities at FVTPL are stated at fair value with any gains or losses arising on remeasurement recognized in profit or loss.

Other financial liabilities

Other financial liabilities, including customer accounts, other borrowed funds and other liabilities are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently recognized at amortized cost. Interest expense is recognized on an effective yield basis.

Derecognition of financial liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Precious metals

Precious metals are represented by physical precious metals and accounts in precious metals. Precious metals are recorded on the reporting date at CBR prices. Corresponding accounts in precious metals are recorded within Due from financial institutions and physical precious metals are recorded within Other assets. Clients' accounts in precious metals are recorded within Customer accounts. Precious metals are not financial instruments and therefore are excluded from financial risk management disclosures in accordance with IFRS 7.

Property and equipment

Property and equipment is carried at historical cost less accumulated depreciation and impairment losses.

Useful lives of property and equipment

Depreciation is recognized so as to write off the cost or revalued amount of property and equipment less their residual value over their useful lives, using the straight-line method. The estimated useful lives, carrying amounts and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Depreciation rate used in 2016: 20%-48% (2015: 20%-48%).

Intangible assets

Intangible assets with finite useful lives are carried at cost less any accumulated amortization and any accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. Estimated useful lives and amortization method are reviewed at the end of each reporting period with the effect of any changes in estimates being accounted for on a prospective basis. Amortization rates used for intangibles assets in 2016 were 10%-33% (2015: 10%-33%).

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Taxation

Income tax expense comprises current and deferred tax.

3. Significant accounting policies (continued)

Taxation (continued)

Current income tax

Current tax expense is calculated based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Current income tax liabilities are measured using statutory tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred income tax is recognized for all temporary differences arising between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences provided 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 if temporary differences arise from the initial recognition of other assets or liabilities in transactions that affect neither taxable nor accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred income taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively.

Operating taxes

The Russian Federation also has various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expense in the statement of comprehensive income.

Payments based on the shares of the parent company

The Group grants the right to some employees of the Bank to purchase equity instruments of Moscow Exchange on the terms settled in individual contracts.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity within Payments based on the shares of the parent company reserve, over the period in which the performance and/or service conditions are fulfilled.

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Bank’s best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period (Note 8).

Contingencies

Contingent liabilities are not recognized in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the statement of financial position but disclosed when an inflow of economic benefits is probable.

(in thousands of Russian rubles, unless otherwise indicated)

3. Significant accounting policies (continued)

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into the Russian rubles at the CBR rates at the reporting date. Transactions in currencies other than functional currency are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses from these translations are included in net gain on foreign exchange operations.

Exchange rate

The CBR exchange rates used by the Bank in the preparation of the financial statements as at year-end are as follows

	31 December 2016	31 December 2015
USD/RUB	60,6569	72,8827
EUR/RUB	63,8111	79,6972

Equity reserves

Reserves recorded in equity (other comprehensive income) at the Bank's statement of financial position include investment revaluation reserve which comprises changes in fair values of AFS financial assets.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and benefits of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

Acquisition of companies from parties under common control

Purchases of companies from parties under common control are accounted for using the pooling of interests method.

The assets and liabilities of the company transferred under common control are recorded at the carrying amounts from the consolidated financial statements of the transferring entity (the Predecessor) at the date of the transfer. Difference between the total book value of net assets and the consideration transferred is accounted for as an adjustment to the shareholders' equity.

Comparative information for previous years is not adjusted and results of acquiree are included into financial statements from the date when control was obtained.

Adoption of new and revised standards

In the current period, the Bank has adopted all of the new and revised Standards and Interpretations issued by the IASB and IFRIC of the IASB that are relevant to its operations and effective for reporting periods ending on December 31, 2016.

The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Bank’s accounting policies that have affected the amounts reported for the current or prior years.

Amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Bank:

3. Significant accounting policies (continued)

Adoption of new and revised standards (continued)

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Bank.

Annual improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include, in particular:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

New and revised IFRSs in issue but not yet effective

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. This listing of standards and interpretations issued are those that the Bank reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Bank intends to adopt these standards when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

3. Significant accounting policies (continued)

New and revised IFRSs in issue but not yet effective (continued)

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost categories. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement. The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

IFRS 9 will also fundamentally change the approach to loan impairment. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all financial assets not carried at FVPL. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance would be based on the probability of default over the life of the asset.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not required; the effect on the transition date – 1 January 2018 – would be recorded in retained earnings. The adoption of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Bank does not expect significant effect on its equity due to adoption of IFRS 9 impairment requirements, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date.

The Bank does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 Leases).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Bank does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

3. Significant accounting policies (continued)

New and revised IFRSs in issue but not yet effective (continued)

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The Bank does not anticipate that adopting the amendments would have a material impact on its financial statements.

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Bank is currently evaluating the impact.

Amendments to IFRS 2

The IASB issued amendments to IFRS 2 Share-based Payment in relation to the classification and measurement of share-based payment transactions. The amendments are intended to eliminate diversity in practice, but are narrow in scope and address specific areas of classification and measurement. The amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations.
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The amendment is effective for annual periods beginning on or after 1 January 2018. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application is permitted. The amendments are not expected to have any impact on the Bank.

4. Critical accounting judgments and key sources of estimation uncertainty

In the process of applying the Bank's accounting policies, Management should apply assumptions and estimates concerning carrying amounts of assets and liabilities that are not readily apparent from other sources. Estimates and underlying assumptions are based on historical experience and other factors that are considered to be reasonable in certain circumstances. Actual outcomes may differ from these estimates.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the change affects only the respective period, and in future periods if the change affects both current and future periods.

Key sources of estimation uncertainty

Impairment of accounts receivable

The Bank regularly reviews its receivables to analyze them for impairment.

The Bank uses its judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of actual data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

As at 31 December 2016, the gross receivables (Note 16) totaled RUB 231 776 thousand (31 December 2015: RUB 48 265 thousand). Based on the impairment analysis, the Bank has created an allowance for impairment of receivables in amount of RUB 22 907 thousand (31 December 2015: 29 628).

(in thousands of Russian rubles, unless otherwise indicated)

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

Valuation of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions;
- Reference to the current fair value of another instrument that is substantially the same;
- A discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 22.

5. Interest income and expense

	Year ended December 31, 2016	**Year ended December 31, 2015**
Interest income		
Interest income on financial assets available-for-sale	14 062 155	11 822 980
Interest income on due from banks and other financial institutions	3 923 251	5 543 577
Interest income on cash and cash equivalents	2 161 843	6 047 271
Total interest income	**20 147 249**	**23 413 828**
Interest expense		
Interest expense on term deposits	(478 662)	(159 791)
Interest expense on stress collateral	(100 946)	-
Interest expense on other borrowed funds	(13 971)	-
Interest expense on direct repo operations with Bank of Russia	-	(72 787)
Interest expense on margin account under reverse repo	-	(49 030)
Total interest expense	**(593 579)**	**(281 608)**

6. Fee and commission income

	Year ended December 31, 2016	**Year ended December 31, 2015**
Clearing services for money market	3 316 978	2 604 741
Clearing services for foreign exchange market	1 768 412	1 789 324
Clearing services for securities market	1 312 931	1 206 543
Clearing services for derivatives market	25 177	21 524
Other commissions	11 221	7 486
Total fee and commission income	**6 434 719**	**5 629 618**

(in thousands of Russian rubles, unless otherwise indicated)

7. Net (loss) / gain on foreign exchange operations

	Year ended December 31, 2016	Year ended December 31, 2015
Foreign exchange swaps	(482 887)	323 309
Net other foreign exchange gain / (loss)	113 197	(25 166)
Total net (loss) / gain on foreign exchange operations	**(369 690)**	**298 143**

The Bank enters into foreign exchange swaps for the purposes of short-term investments and liquidity management.

8. Personnel expenses

	Year ended December 31, 2016	Year ended December 31, 2015
Personnel expenses	520 142	561 746
Payroll taxes and charges	89 352	85 053
Payments based on the shares of the parent company	29 094	42 022
Total personnel expenses	**638 588**	**688 821**

Payments based on the shares of the parent company

Rights to purchase equity instruments of the parent company granted to some employees give to holders a choice either to only purchase the full number of shares at exercise price or also to sell back shares at the market price for the same ruble value. A majority of the rights vest when the employee continues to be employed by the Group at the vesting date. The maximum contractual term of the contracts is four years. The fair value of the rights is measured at the grant date using a binomial model taking into account the terms and conditions upon which the instruments were granted.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, rights to purchase equity instruments of the parent company:

	Number	WAEP
Outstanding at January 1, 2015	3 566 668	48,8
Granted during the year	3 000 000	67,7
Exercised	(1 499 999)	46,9
Outstanding at December 31, 2015	**5 066 669**	**60,6**
Exercised	(2 150 000)	57,6
Outstanding at December 31, 2016	**2 916 669**	**62,7**

(in thousands of Russian rubles, unless otherwise indicated)

8. Personnel expenses (continued)

WAEP for exercised rights in the table above is calculated based on the contractual exercise price.

The weighted average remaining contractual life for the rights outstanding as at December 31, 2016 was 1 year (December 31, 2015: 1 year). The weighted average fair value of rights granted during the year ended December 31, 2015 was RUB 19,45 per 1 right. Exercise prices for rights outstanding as at December 31, 2016 were RUB 46,9 – RUB 67,7 (December 31, 2015: RUB 46,9 – RUB 67,7).

9. Administrative and other operating expenses

	Year ended December 31, 2016	Year ended December 31, 2015
Information and technological services	259 671	259 381
Settlement services and banks' fees	131 324	91 601
Taxes, other than income tax	79 832	85 397
Maintenance of property and equipment and intangible assets	67 603	31 438
Lease of property and equipment	64 773	82 558
Professional services	64 435	65 353
Depreciation and amortization charge	44 402	39 675
Depository services	25 580	20 402
Communications services	7 834	7 593
Other	32 035	46 838
Total administrative and other operating expenses	**777 489**	**730 236**

Expenses for information and technological services comprise the Bank's expenses paid to the Group for the services required by the Bank to perform clearing operations.

10. Income tax expense

	Year ended December 31, 2016	Year ended December 31, 2015
Current income tax expense	8 285 261	4 607 455
Deferred taxation movement	(3 413 798)	662 603
Total income tax expense	**4 871 463**	**5 270 058**

The Bank calculates its income tax for the current period based on the tax accounts maintained and prepared in accordance with the requirements of the Russian tax legislation which may differ from IFRS.

As the certain expenses are not tax-deductible, it results in permanent tax differences. A reconciliation of the income tax expense based on the statutory rate with actual income tax is as follows:

	Year ended December 31, 2016	Year ended December 31, 2015
Profit before income tax	**25 802 857**	**27 540 821**
Tax at the statutory tax rate (20%)	5 160 571	5 508 164
Tax effect of income taxed at rates other than the 20% rate	(318 235)	(256 530)
Tax effect of permanent differences	29 127	18 424
Income tax expense	**4 871 463**	**5 270 058**

(in thousands of Russian rubles, unless otherwise indicated)

10. Income tax expense (continued)

Deferred taxes reflect net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences relate mostly to different methods of income and expense recognition, as well as the difference between the accounting and tax base of certain assets.

Tax effect of temporary differences as at 31 December 2016 and 2015, comprise:

	Statement of financial position		**Recognized in profit or loss**	
	December 31, 2016	**December 31, 2015**	**Year ended December 31, 2016**	**Year ended December 31, 2015**
Effect of deductible temporary differences				
Financial assets available-for-sale	1 628 028	-	1 628 028	-
Property and equipment and intangible assets	449	12	437	(145)
Other assets	5 718	7 009	(1 291)	2 208
Tax loss carried forward	-	-	-	(101 376)
Other liabilities	89 744	94 659	(4 915)	59 600
Total effect of deductible temporary differences	**1 723 939**	**101 680**	**1 622 259**	**(39 713)**
Effect of taxable temporary differences				
Cash and cash equivalents	-	-	-	16 802
Financial assets of central counterparty	-	-	-	3 709
Financial assets available-for-sale	-	(1 771 846)	1 791 539	(643 401)
Total effect of taxable differences	**-**	**(1 771 846)**	**1 791 539**	**(622 890)**
Total deferred income tax income / (expense)			**3 413 798**	**(662 603)**
Deferred tax assets / (liabilities)	**1 723 939**	**(1 670 166)**		

	Year ended December 31, 2016	**Year ended December 31, 2015**
Beginning of the period – deferred tax liabilities	**(1 670 166)**	**(519 763)**
Change in deferred tax recognized in profit or loss	3 413 798	(662 603)
Change in deferred tax recognized in other comprehensive income	(19 693)	(487 800)
End of the period – deferred tax assets (liabilities)	**1 723 939**	**(1 670 166)**

(in thousands of Russian rubles, unless otherwise indicated)

11. Cash and cash equivalents

	December 31, 2016	December 31, 2015
Correspondent accounts and overnight deposits with other credit organizations	354 098 876	929 209 436
Balances with Bank of Russia	21 001 754	7 029 344
Cash on hand	1 264	4 498
Settlements on brokerage operations	168	136
Total cash and cash equivalents	**375 102 062**	**936 243 414**
Interest accrued on correspondent accounts with maturity of more than 1 working day	-	(901 451)
Total cash and cash equivalents for the purpose of Statement of Cash Flows	**375 102 062**	**935 341 963**

As at 31 December 2016, cash and cash equivalents include balances with four counterparties (31 December 2015: with three counterparties) in the amount of RUB 297 410 411 thousand (31 December 2015: RUB 537 170 637 thousand), which is a significant concentration.

12. Due from banks and other financial institutions and Margin account under reverse repo

	December 31, 2016	December 31, 2015
Reverse repurchase agreements with financial institutions	47 887 681	21 279 042
Other time deposits with the CBR	5 004 090	-
Deposits in precious metals	2 671 744	-
Correspondent accounts in precious metals	404 538	2 903 926
Term deposits	-	16 031 021
Total due from banks and other financial institutions	**55 968 053**	**40 213 989**

As at December 31, 2015, margin account under reverse repo in amount of RUB 417 707 thousand represents cash collateral received by the Bank under reverse repo operations.

As at 31 December 2016, the fair value of bonds pledged under reverse repurchase agreements with financial institutions was RUB 62 517 076 thousand (31 December 2015: RUB 23 651 677 thousand).

(in thousands of Russian rubles, unless otherwise indicated)

13. Financial assets and liabilities of central counterparty

	December 31, 2016	December 31, 2015
Repo transactions	1 730 377 026	512 737 365
Currency transactions	2 886 822	5 771 888
Total financial assets and liabilities of central counterparty	**1 733 263 848**	**518 509 253**

Assets from repo transactions represent amounts receivable under reverse repurchase agreements, and liabilities from repo transactions represent amounts payable under respective direct repurchase agreements entered by the Bank in its capacity of central counterparty. Fair value of securities pledged as collateral under repo transactions is RUB 1 924 488 084 thousand (31 December 2015: RUB 580 456 922 thousand).

CCP financial assets and liabilities under currency transactions represent fair values of overnight currency deals. Gross claims and liabilities with individual counterparties are offset in accordance with IAS 32. Information about financial assets offset against financial liabilities in the statement of financial position is disclosed in Note 25.

As at 31 December 2016, there was no allowance created for financial assets of central counterparty (31 December 2015: no allowance) and these financial assets were not overdue (31 December 2015: not overdue).

14. Financial assets available-for-sale

	December 31, 2016	December 31, 2015
Bonds issued by Russian Federation	124 013 933	98 832 899
Bonds issued by Russian companies	56 170 575	33 283 156
Bonds issued by Russian commercial banks	21 872 698	21 149 496
Bonds issued by international financial organizations	3 580 465	2 849 184
Corporate shares	1 701	1 701
Bonds issued by Vnesheconombank	-	3 217 725
Bonds issued by Russian local governments	-	1 811 018
Total investments available-for-sale	**205 639 372**	**161 145 179**

(in thousands of Russian rubles, unless otherwise indicated)

15. Property, equipment and intangible assets

	Furniture & Equipment	Intangible assets	Total
Cost			
December 31, 2014	**24 283**	**111 798**	**136 081**
Additions	21 051	30 169	51 220
Disposals	(43)	(418)	(461)
December 31, 2015	**45 291**	**141 549**	**186 840**
Additions	2 178	48 952	51 130
Disposals	(147)	(3 364)	(3 511)
December 31, 2016	**47 322**	**187 137**	**234 459**
Accumulated depreciation			
December 31, 2014	**9 996**	**40 780**	**50 776**
Charge for the period	14 793	24 882	39 675
Disposals	-	(418)	(418)
December 31, 2015	**24 789**	**65 244**	**90 033**
Charge for the period	15 136	29 266	44 402
Disposals	(134)	(3 364)	(3 498)
December 31, 2016	**39 791**	**91 146**	**130 937**
Net book value			
December 31, 2015	**20 502**	**76 305**	**96 807**
December 31, 2016	**7 531**	**95 991**	**103 522**

16. Other assets

	December 31, 2016	December 31, 2015
Other financial assets		
Receivables on services rendered	209 151	25 641
Receivables on transactions with securities	22 625	22 625
Less allowance for impairment	(22 907)	(29 628)
Total other financial assets	**208 869**	**18 638**
Other non-financial assets		
Precious metals	561 099	879 975
Prepayments and other receivables	35 245	29 098
Taxes receivable other than income tax	1 237	916
Total other non-financial assets	**597 581**	**909 989**
Total other assets	**806 450**	**928 627**

(in thousands of Russian rubles, unless otherwise indicated)

17. Customer accounts

	December 31, 2016	December 31, 2015
Accounts of clearing participants	544 853 236	1 056 234 780
Term deposits	16 262 711	1 312 415
Current accounts	14 837 171	9 412 556
Accounts in precious metals	3 637 314	3 783 902
Guarantee fund on securities and derivatives markets	3 182 865	3 879 235
Guarantee fund on foreign currency market and precious metals market	755 922	844 945
Guarantee fund on OTC derivatives market	37 000	89 050
Total customer accounts	**583 566 219**	**1 075 556 883**

Accounts of clearing participants include margins deposited by clearing participants to cover risks arising from open positions and to guarantee payment of commissions.

Guarantee funds consist of collective clearing collateral contributed by clearing members. The purpose of these funds is to provide market participants with additional assurance of the Bank's ability to guarantee proper settlements of open positions in case of a market participant default.

18. Other liabilities

	December 31, 2016	December 31, 2015
Other financial liabilities		
Payables to personnel	238 971	222 216
Payables for depositary and settlement operations	61 753	9 733
Payables to clearing participants with revoked licences	39 168	12 157
Payables on information and technological services	25 327	25 327
Payables for unused vacations	20 122	21 395
Other	8 639	6 115
Total other financial liabilities	**393 980**	**296 943**
Other non-financial liabilities		
Deferred commission income	199 041	239 707
Taxes payable, other than income tax	3 437	788
Total other liabilities	**596 458**	**537 438**

(in thousands of Russian rubles, unless otherwise indicated)

19. Share capital and paid-in capital

As at 31 December, 2015 and 2016 the Bank's share capital consists of 16 670 000 issued and paid ordinary shares with the nominal value of RUB 1 thousand each.

The Bank's reserves distributable between the shareholders are limited by the amounts disclosed in its statutory RAS accounts. Non-distributable reserves are represented by a Reserve fund and part of NCC's own funds, segregated in accordance with regulations of CBR relating to CCP activities. Reserve fund is stated as a part of retained earnings.

Reserve fund is created as required by the regulations of the Russian Federation, to cover general banking risks, including future losses and other unforeseen risks or contingencies. As at 31 December 2016, the reserve fund amounted to RUB 966 775 thousand (31 December 2015: RUB 966 775 thousand).

Part of NCC's own funds, segregated in accordance with regulations of CBR relating to CCP activities, as a part of retained earnings, is represented by:

- Dedicated capital of CCP which is intended to cover possible losses resulting from a default or improper performance of their obligations by clearing participants, in amount of RUB 9 500 00 thousand (December 31, 2015: RUB 6 500 00 thousand);
- funds for termination or restructuring of CCP activities, in amount of RUB 593 310 thousand (December 31, 2015: RUB 510 999 thousand);
- funds to cover possible losses from deterioration of the CCP's financial position, not associated with defaults of clearing participants, in the amount of RUB 296 655 thousand (December 31, 2015: RUB 255 499 thousand).

20. Commitments and contingencies

Operating lease commitments – Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases of premises, parking slots and cars are as follows:

	December 31, 2016	December 31, 2015
Less than 1 year	30 949	39 819

Legal proceedings – In the normal course of business, claims against the Bank may be received from customers and counterparties. Management believes that no significant losses will be incurred by the Bank as a result of such complaints and accordingly no provisions have been made in these financial statements.

Operating environment – Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy has been negatively impacted by a decline in oil prices and sanctions imposed on Russia by a number of countries. The Rouble interest rates remained high. The combination of the above resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Bank's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

(in thousands of Russian rubles, unless otherwise indicated)

20. Commitments and contingencies (continued)

Taxation – Major part of the Bank's business activity is carried out in the Russian Federation. Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. Management's interpretation of such legislation as applied to the transactions and activity of the Bank 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 Bank 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.

On October 21, 2016 the tax service of the Russian Federation decided to conduct a tax monitoring of the Bank in 2017 on accuracy of calculation, completeness and payment (transfer) timeliness of taxes and fees which is entrusted on taxpayers (tax agents) in accordance with the Tax Code of the Russian Federation.

Tax monitoring is a type of tax control that has been in force in the Russian Federation since January 1, 2015. Tax monitoring is hold based on the decision of tax authority, with the permission and by the request of taxpayer. Peculiarity of tax monitoring is that the tax authority receives access to information that allows to testify correctness of calculation, completeness and timeliness tax payments and fees by the taxpayer on regular basis. Participation in the system of tax monitoring will allow the Bank to eliminate emerging tax risks and legal uncertainty on tax issues and obtain a reasoned opinion on disputable tax accounting issues for both accomplished and planned "tax ruling" transactions. At the same time during the period of tax monitoring, tax inspections (cameral, field) by the tax authority are not conducted.

As at 31 December 2016 management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

21. Transactions with related parties

a) Control relationships

As at 31 December 2016 and 2015, the Bank is a wholly owned subsidiary of Moscow Exchange. Russian Federation exercized significant influence over Moscow Exchange.

b) Transactions with key management

Key management personnel comprises members of the Management Board and the Supervisory Board. The total remuneration of key management personnel includes short-term benefits (salary, bonuses, payroll related taxes, insurance, health care, etc.), long-term benefits (deferred part of bonus in accordance with CBR instruction #154-I), and share-based payment expense.

	Year ended December 31, 2016	Year ended December 31, 2015
Short-term employee benefits, except for share-based payments	139 292	155 293
Share-based payment expense	22 870	28 154
Long-term employee benefits	19 044	34 240
Total remuneration of key management personnel	**181 206**	**217 687**

c) Transactions with government-related entities

The Bank considers government-related entities as related parties if Russian Federation has direct or indirect control and exercises significant influence over the entity. The Bank provides clearing, cash and settlement services to government-related entities, deposits funds with state banks and purchases bonds issued by the Russian Federation. Such entities provide to the Bank information and technological services and provide premises for rent.

(in thousands of Russian rubles, unless otherwise indicated)

22. Fair Value Measurements

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets 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 forward contracts are measured based on observable spot exchange rates and the yield curves of the respective currencies.

The fair value of the unquoted debt securities has been determined using a discounted cash flow model, by reference to quoted market prices for similar instruments.

Information on techniques applied by the Bank to measure fair value of financial instruments is as follows:

	December 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Central counterparty financial assets and liabilities (foreign currency operations)	2 886 822	-	-	2 886 822
Investments available-for-sale	193 596 793	12 040 878	1 701	205 639 372

Transfers between level 1 and 2

	December 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Central counterparty financial assets and liabilities (foreign currency operations)	5 771 888	-	-	5 771 888
Investments available-for-sale	152 329 978	8 813 501	1 701	161 145 180

The Bank's Management considers that the fair value of all financial assets and liabilities approximates their carrying value.

The following table shows a reconciliation for year ended December 31, 2016 and December 31, 2015, for fair value measurements in Level 3 of the fair value hierarchy:

Balance at December 31, 2014	**525**
Level 3 securities purchased	1 176
Balance at December 31, 2015	**1 701**
Balance at December 31, 2016	**1 701**

(in thousands of Russian rubles, unless otherwise indicated)

22. Fair Value Measurements (continued)

Transfers between level 1 and 2

For assets and liabilities that are recognised at fair value on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The following table shows total amount of transfers of financial assets between level 1 and level 2. Transfers from level 2 to level 1 (from level 1 to level 2) occurred due to fact that markets for certain financial assets became (ceased to be) active during the period.

	Transfers between Level 1 and Level 2	
	Year ended December 31, 2016	**Year ended December 31, 2015**
From Level 1 to Level 2		
Investments avaliable-for-sale	5 916 480	4 545 099
From Level 2 to Level 1		
Investments avaliable-for-sale	114 944	1 089 967

23. Capital management

The Bank manages its capital to ensure that it will be able to continue to operate as a going concern and keep the required balance between ensuring financial stability in any economic environment, minimizing expenses of the market players and ensuring the return to stakeholders at a high level.

Issues related to the Bank's capital management are reviewed by the Supervisory Board. As part of this review, Supervisory Board in particular analyzes capital adequacy and risks associated with each class of capital. On the basis of recommendations of the Supervisory Board, the Bank adjusts its capital structure by dividend payments, additional issue of shares or repurchase of shares from active shareholders.

The Bank's general policy with respect the risks associated with capital management has not changed compared to 2015.

Under the current capital requirements set by the Central Bank of Russia, banks have to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. As at 31 December 2016 his minimum level was 8% (December 31, 2015: 10%). The Bank was in compliance with the statutory capital ratio during the years ended 31 December 2016 and 2015.

	December 31, 2016	**December 31, 2015**
Equity	46 515 470	54 130 884
Risk weighted assets	240 107 296	403 647 959
Capital adequacy ratio (H1.0)	**19,4%**	**13,4%**
Statutory ratio of capital adequacy	8%	10%

24. Risk management policies

As a central counterparty and systemically important financial markets infrastructure institution, Bank has a specific risk structure, which consists of the following interrelated and interdependent risk groups:

- risks specific to the Bank as a central counterparty and clearing organization;
- the risks inherent in banking activities of the Bank;
- risks specific to the Bank as a commodities delivery operator.

The key objectives of the Bank are financial system risks reduction and ensuring stability of the financial and commodity markets where Bank operates. For these purposes Bank implemented a comprehensive risk management system (RMS), consistent with international standards, which helps to perform a thorough analysis of risks arising in the course of all activities of the Bank. This integrated approach to RMS organization is based on a single holistic unit responsible for the RMS in Bank that accumulates information on all risk types.

The key objectives of the RMS are the following:

- mitigate risk exposures across all segments of financial and commodity markets;
- ensure the adequacy of the Bank funds to cover potential losses through the accumulation of financial resources, including own capital, individual clearing collateral, guarantee funds and other types of collateral;
- ensure the reliable functioning of exchange trading systems, clearing and settlements by means of timely risks identification and measures of alert and adequate response in case of risk events.

The most recent risks' identification procedure revealed Bank is exposed to the following significant risks: credit risk, market risk, liquidity risk, operational risk, strategic risk, legal risk, compliance and reputational risks.

The main tasks of risk management include risk identification, risk measurement, development of internal RMS policies and implementation of control mechanisms, including limits system and subsequent compliance control.

Significant types of risks for the Bank are credit, market, liquidity and operational risks. Significant risks stress-tested by the Bank on a monthly basis. Information on stress-testing is disclosed in reporting forms prepared in accordance with requirements of the Bank of Russia.

Credit risk

Credit risk is the risk of losses resulting from a default or improper performance of their financial obligations to the Bank by its counterparties.

The goal of credit risk management is to define and evaluate the level of risk necessary to ensure sustainable growth determined by the Bank's development strategy.

Key objectives of the Bank's credit risk management:

- implement a systemic and enhanced approach to optimize the structure of the assets in order to limit credit risk exposure;
- enhance the competitive advantages of the Bank through implementation of more precise risk measures;
- maintain stability during the introduction of new complex products and services.

The Bank controls credit risk by setting limits on counterparties and groups of related counterparties. Credit risk limits are set on the basis of a comprehensive and in-depth evaluation of the counterparties' financial conditions, analysis of the macroeconomic environment of counterparties' activities, the level of information transparency, business reputation and other financial and non-financial factors. The Bank has developed and constantly improves an internal ratings system, providing a prudent assessment of its counterparties and the level of accepted credit risk.

Credit risk limits are approved by the Management Board. Credit risk limits are monitored and reviewed on a regular basis. Also the Bank constantly monitors the concentration of credit risk in compliance with applicable prudential requirements.

24. Risk management policies (continued)

Credit risk (continued)

To reduce credit risk the Bank applies specific requirements to financial conditions of its counterparties and to the types and quality of collateral accepted by the Bank. Accepted collateral includes liquid securities and cash contributions in Rubles and foreign currencies. Eligible types of collateral depends on the market and the type of exposure. Moreover the Bank can aply discounts to collateral accepted.

One of the major risks of the Bank is exposed to within its centralized clearing activity is the CCP credit risk. To mitigate credit risk from its CCP activities the Bank has introduced a multi-level default waterfall structure in compliance with the highest international standards and consisting of various lines of defence applicable in case of a clearing participant default. In 2015 the Bank has formed Dedicated capital as an additional defence level in its waterfall to limit its liabilities in case of a counterparty default. Moreover the Bank has updaded the guarantee funds contribution policy: now it is unified across all markets. Should one or more clearing members default, CCP takes necessary measures to perform its obligations to non-defaulting clearing members.

In all markets of the Group there is a unified multi-level safeguard structure, which includes:

- Individual clearing collateral (including stress collateral);
- Dedicated capital of CCP;
- Collective clearing collateral (guarantee funds);
- Additional capital of CCP;
- CCP liability limitation pocedure.

Should a clearing member defaults and its individual and collective clearing collateral turns out to be insufficient to cover the losses, the rest of CCP safeguard structure is used in respective order listed above. In addition to safeguard structure the Bank has implemented a cross-default procedure, which regulates the use of defaulting clearing member funds across all markets. General action plan in case of a default is described in clearing rules for each market of Moscow Exchange Group.

Maximum exposure to credit risk

The Bank's maximum exposure to credit risk is equal to the carrying value of assets exposed to credit risk.

Credit risks are not significant for the Bank’s activities as the Bank does not issue loans and guarantees, settlement documents of customers are executed only if the customers have positive balance of accounts with the Bank, and customer accounts and own funds denominated in Russian rubles are held only on accounts with banks with high credit ratings.

Financial assets are graded according to the current credit rating that has been issued by an internationally recognized rating agency such as Fitch, Standard & Poor’s and Moody’s. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB-. Financial assets which have ratings lower than BBB- are classed as speculative grade.

Cash and cash equivalents (Note 11) include accounts with Non-Banking Credit Organization Closed Joint-stock Company National Settlement Depository ("NSD") of RUB 62 434 387 thousand (31 December 2015: RUB 50 817 802 thousand). NSD has not been rated by the above-mentioned rating agencies, however the company was rated by Thomas Murray, which is a rating agency specializing in assigning ratings to custodians. As at 31 December 2016, NSD had AA- rating (31 December 2015: AA-) which corresponds to the low risk level.

As at December 31, 2016 and 2015, balances with the CBR classified at the sovereign credit rating level of the Russian Federation.

(in thousands of Russian rubles, unless otherwise indicated)

24. Risk management policies (continued)

Credit risk (continued)

Tables below do not include amounts relating to accounts in precious metals.

The following tables detail the credit ratings of financial assets held by the Bank as at 31 December 2016 and 2015:

	AA	A	BBB	less BBB-	Not rated	December 31, 2016 Total
FINANCIAL ASSETS:						
Cash and cash equivalents	164 732 008	8 349 955	21 875 393	117 708 914	62 434 528	**375 100 798**
Mandatory cash balances with Central Bank of the Russian Federation	-	-	3 240 788	-	-	**3 240 788**
Due from financial institutions	-	-	5 004 090	47 887 681	-	**52 891 771**
Central counterparty financial assets	-	-	545 194	1 403 347 484	329 371 170	**1 733 263 848**
Investments available-for-sale	-	-	87 134 576	117 279 559	1 225 237	**205 639 372**
Other financial assets	-	-	1 143	96 851	110 875	**208 869**

	AA	A	BBB	less BBB-	Not rated	December 31, 2015 Total
FINANCIAL ASSETS:						
Cash and cash equivalents	300 298 464	243 945 493	35 092 421	306 084 736	50 817 802	**936 238 916**
Mandatory cash balances with Central Bank of the Russian Federation	-	-	1 792 154	-	-	**1 792 154**
Due from financial institutions	-	-	-	37 310 063	-	**37 310 063**
Central counterparty financial assets	-	-	395 539	336 650 329	181 463 385	**518 509 253**
Investments available-for-sale	-	-	83 712 731	77 430 747	1 701	**161 145 179**
Other financial assets	-	-	4	933	17 701	**18 638**

The Bank makes a decision to create an impairment allowance based on the analysis of financial position of its counterparties and maturities of financial assets.

(in thousands of Russian rubles, unless otherwise indicated)

24. Risk management policies (continued)

Geographical concentration

Geographical concentration of assets and liabilities is as follows:

	Russian Federation	OECD countries	Other	December 31, 2016 Total
Financial assets				
Cash and cash equivalents	115 514 734	259 203 267	384 061	375 102 062
Mandatory cash balances with Central Bank of the Russian Federation	3 240 788	-	-	3 240 788
Due from financial institutions	52 891 771	-	-	52 891 771
Central counterparty financial assets	1 733 263 848	-	-	1 733 263 848
Investments available-for-sale	165 828 421	36 230 486	3 580 465	205 639 372
Other financial assets	208 869	-	-	208 869
Total financial assets	**2 070 948 431**	**295 433 753**	**3 964 526**	**2 370 346 710**
Financial liabilities				
Customer accounts	578 283 215	826 080	819 610	579 928 905
Central counterparty financial liabilities	1 733 263 848	-	-	1 733 263 848
Other financial liabilities	393 980	-	-	393 980
Total financial liabilities	**2 311 941 043**	**826 080**	**819 610**	**2 313 586 733**

	Russian Federation	OECD countries	Other	December 31, 2015 Total
Financial assets				
Cash and cash equivalents	229 521 316	705 605 543	1 116 555	936 243 414
Mandatory cash balances with Central Bank of the Russian Federation	1 792 154	-	-	1 792 154
Due from financial institutions	37 310 063	-	-	37 310 063
Central counterparty financial assets	518 509 253	-	-	518 509 253
Investments available-for-sale	158 294 294	1 701	2 849 184	161 145 179
Other financial assets	18 638	-	-	18 638
Total financial assets	**945 445 718**	**705 607 244**	**3 965 739**	**1 655 018 701**
Financial liabilities				
Customer accounts	1 071 107 778	-	665 203	1 071 772 981
Margin account under reverse repo	417 707	-	-	417 707
Central counterparty financial liabilities	518 509 253	-	-	518 509 253
Other financial liabilities	294 170	2 773	-	296 943
Total financial liabilities	**1 590 328 908**	**2 773**	**665 203**	**1 590 996 884**

(in thousands of Russian rubles, unless otherwise indicated)

24. Risk management policies (continued)

Market risk

Market risk is the risk of losses due to changes in market variables such as interest rates, foreign exchange rates, and prices of financial instruments, and also due to low market liquidity as a result of liquidation costs/ positions restructuring.

With regard to the activities of a central counterparty the Bank becomes exposed to market risk only when credit risk event is realized. Price volatility of market instruments may cause losses due to unfavorable market movements when it is necessary to close positions (substitute contracts) at market prices. Market risk can stem from a potential need to close large market positions (to sell the collateral) of defaulting clearing member which at a low market liquidity may adversely affect the price at which position can be closed (collateral can be sold).

The key components of market risk are interest and currency risks..

Interest rate risk

Interest rate risk is the risk of changes in interest income or the financial instruments price due to the interest rate changes.

The Bank's result is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial positions and cash flows. Interest margin may increase, decrease or lead to losses as a result of unexpected movements.

In order to measure the impact of interest rate risk on the fair value of financial instruments the Bank conducts periodic assessments of potential losses, which may be triggered by negative changes in market environment. The Risk Management Department conducts periodic monitoring of the current financial results of the Bank, assesses the sensitivity of the impact of interest rate risk on portfolio fair value and income.

As the majority of the Bank's financial instruments are fixed rate contracts, their contractual maturity dates are also their repricing dates.

The sensitivity analysis presented below has been performed based on the risk of interest rate fluctuations as at the reporting date. The estimation is based on the assumption that the interest rate will change by 150 bp (31 December 2015: 150 bp) which is in line with the Management's expectations with regard to a reasonably possible change in interest rates.

	December 31, 2016		**December 31, 2015**	
	Net profit	**Equity**	**Net profit**	**Equity**
150 bp parallel rise	-	(3 939 635)	-	(2 891 287)
150 bp parallel fall	-	3 687 179	-	2 984 904

(in thousands of Russian rubles, unless otherwise indicated)

24. Risk management policies (continued)

Currency risk

Currency risk is the risk of changes in financial instruments value due to the exchange rates fluctuations. The financial position and cash flows of the Bank are subject to the influence of such fluctuations. The main source of currency risk is open foreign currency positions.

NCC is a CCP on the of FX market of the Moscow Exchange. The Bank limits currency risk on FX market through the application of the following instruments: mechanism of currency rates restrictions within trading session, trading limits system, margining system, mechanism of open currency positions assurance, DVP principle, special swap facilities with Bank of Russia.

In the course of clearing activities the Bank determines currency risk arising from the volatility of currency pairs. In this regard for market risk management purposes the Bank monitors the conditions of internal and external FX markets and sets limits on intraday fluctuations within trading sessions in accordance with current market environment.

The Bank's exposure to currency risk is as follows:

	RUB	USD	EUR	Other currencies	December 31, 2016 Total
Financial assets					
Cash and cash equivalents	59 442 190	132 998 752	177 567 054	5 094 066	375 102 062
Mandatory cash balances with Central Bank of the Russian Federation	3 240 788	-	-	-	3 240 788
Due from financial institutions	5 004 091	45 089 224	2 798 456	-	52 891 771
Central counterparty financial assets	1 309 701 626	419 233 350	4 328 872	-	1 733 263 848
Investments available-for-sale	115 798 553	71 484 771	18 356 048	-	205 639 372
Other financial assets	208 869	-	-	-	208 869
Total financial assets	**1 493 396 117**	**668 806 097**	**203 050 430**	**5 094 066**	**2 370 346 710**
Financial liabilities					
Customer accounts	126 937 899	249 426 053	198 461 907	5 103 046	579 928 905
Central counterparty financial liabilities	1 309 701 626	419 233 350	4 328 872	-	1 733 263 848
Other financial liabilities	353 735	42	40 203	-	393 980
Total financial liabilities	**1 436 993 260**	**668 659 445**	**202 830 982**	**5 103 046**	**2 313 586 733**
Open position	**56 402 857**	**146 652**	**219 448**	**(8 980)**	

(in thousands of Russian rubles, unless otherwise indicated)

24. Risk management policies (continued)

Currency risk (continued)

	RUB	USD	EUR	Other currencies	December 31, 2015 Total
Financial assets					
Cash and cash equivalents	51 601 052	380 104 144	502 009 227	2 528 991	936 243 414
Mandatory cash balances with Central Bank of the Russian Federation	1 792 154	-	-	-	1 792 154
Due from financial institutions	16 031 020	-	21 279 043	-	37 310 063
Central counterparty financial assets	440 808 280	77 527 969	173 004	-	518 509 253
Investments available-for-sale	114 073 740	44 355 553	2 715 886	-	161 145 179
Other financial assets	18 638	-	-	-	18 638
Total financial assets	**624 324 884**	**501 987 666**	**526 177 160**	**2 528 991**	**1 655 018 701**
Financial liabilities					
Customer accounts	120 408 007	423 566 132	525 272 629	2 526 213	1 071 772 981
Margin account under reverse repo	-	-	417 707	-	417 707
Central counterparty financial liabilities	440 808 280	77 527 969	173 004	-	518 509 253
Other financial liabilities	287 069	1 263	8 496	115	296 943
Total financial liabilities	**561 503 356**	**501 095 364**	**525 871 836**	**2 526 328**	**1 590 996 884**
Open position	**62 821 528**	**892 302**	**305 324**	**2 663**	

Currency risk sensitivity

The following table details the Bank's sensitivity to a 23% (31 December 2015: 26%) increase and decrease in the Russian ruble exchange rate against relevant foreign currencies. The sensitivity rate represents Bank’s assessment of the reasonably possible change in foreign exchange rates.

	December 31, 2016		**December 31, 2015**	
	USD	**EUR**	**USD**	**EUR**
	23%	**23%**	**26%**	**26%**
23% ruble appreciation (December 31, 2015: 26%)	(26 984)	(40 378)	(185 599)	(63 507)
23% ruble depreciation (December 31, 2015: 26%)	26 984	40 378	185 599	63 507

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In fact, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, thus the results should not be interpolated or extrapolated.

24. Risk management policies (continued)

Limitations of sensitivity analysis (continued)

Sensitivity analyses do not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the Bank's financial position may vary depending on changes in the market. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. In the event of sharp negative fluctuations in the securities market, Management actions could include selling investments, changing investment portfolio structure, and taking other protective measures. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas significantly impact assets measured at fair value in the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to significant fluctuations in equity.

Other limitations of the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of future market changes that cannot be predicted with any certainty. Another assumption is that all interest rates move in an identical manner.

Liquidity risk

Liquidity risk is the risk of facing the situation where available funds are insufficient to meet current financial liabilities and arises from the time gap between assets and liabilities of the Bank.

The main purpose of liquidity management is to ensure Bank's ability to perform its obligations not only under normal market conditions but also in cases of unforeseen emergencies without suffering unacceptable losses or risk of damaging its business reputation.

Bank’s liquidity management procedures cover various forms of liquidity risk:

- operating liquidity risk arising from the inability to timely meet its current obligations due to the existing structure of current cash inflows and outflows (operating analysis and control of liquidity);
- risk of mismatch between the amounts and dates of repayment of claims and obligations – analysis and assessment of prospective liquidity (GAP analysis);
- risk of unforeseen liquidity needs, i.e. the consequences of the risk that unforeseen future events may require more resources than allocated for this purpose (stress testing).

Liquidity risk management plays an important role in the whole risk management system and includes such procedures as:

- cashflow forecast by key currencies and assessment of liquidity requirements;
- forecasting/monitoring payment flow and liquidity ratios;
- maintaining of acid, current and longterm liquidity ratios compliant with statutory ratios;
- planning measures to recover the required liquidity level considering unfavourable and crisis situations;
- setting of limits and restrictions on cash transmission into other groups of assets: securities trading limits and limits on open currency position;
- ensuring an optimal structure of assets in accordance with the resource base;
- accounting for the maturities of fund sources and their volumes when allocating assets to financial instruments;
- analysis of negative cases with liquidity shortage, assessment of chain reaction to that type of risk, development of liquidity management methods and mechanisms.

NCC analyses its liquidity state based on maturity gaps between assets and liabilities, assessment of liquidity shortage and liquidity shortage (excess) coefficient on an accrual basis by maturity buckets and with account for refinancing possibilities. The detailed analysis of liquidity using internal models includes clarifying adjustments of accounting data on the structure, amounts and maturity of assets and liabilities.

Tables below do not include amounts relating to accounts in precious metals.

(in thousands of Russian rubles, unless otherwise indicated)

24. Risk management policies (continued)

Liquidity risk (continued)

An analysis of liquidity risk is presented in the following table. The presentation below is based on information provided to the Bank's key management. As at 31 December 2016 and 2015, financial assets available-for-sale, which are included into the Bank of Russia's Lombard list are presented within the category "Up to 1 month".

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Maturity undefined	December 31, 2016 Total
Financial assets						
Cash and cash equivalents	375 102 062	-	-	-	-	375 102 062
Mandatory cash balances with Central Bank of the Russian Federation	-	-	-	-	3 240 788	3 240 788
Due from financial institutions	5 004 090	47 887 681	-	-	-	52 891 771
Central counterparty financial assets	1 429 932 504	303 331 344	-	-	-	1 733 263 848
Investments available-for-sale	193 504 403	121 377	-	12 011 891	1 701	205 639 372
Other financial assets	208 869	-	-	-	-	208 869
Total financial assets	**2 003 751 928**	**351 340 402**	**-**	**12 011 891**	**3 242 489**	**2 370 346 710**
Financial liabilities						
Customer accounts	569 814 097	10 114 808	-	-	-	579 928 905
Central counterparty financial liabilities	1 429 932 504	303 331 344	-	-	-	1 733 263 848
Other financial liabilities	103 048	240 146	18 924	31 862	-	393 980
Total financial liabilities	**1 999 849 649**	**313 686 298**	**18 924**	**31 862**	**-**	**2 313 586 733**
Liquidity gap	**3 902 279**	**37 654 104**	**(18 924)**	**11 980 029**	**3 242 489**	
Cumulative liquidity gap	**3 902 279**	**41 556 383**	**41 537 459**	**53 517 488**	**56 759 977**	

(in thousands of Russian rubles, unless otherwise indicated)

24. Risk management policies (continued)

Liquidity risk (continued)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Maturity undefined	December 31, 2015 Total
Financial assets						
Cash and cash equivalents	936 243 414	-	-	-	-	936 243 414
Mandatory cash balances with Central Bank of the Russian Federation	-	-	-	-	1 792 154	1 792 154
Due from financial institutions	16 031 021	-	21 279 042	-	-	37 310 063
Central counterparty financial assets	518 509 253	-	-	-	-	518 509 253
Investments available-for-sale	160 246 230	-	50 723	846 525	1 701	161 145 179
Other financial assets	18 638	-	-	-	-	18 638
Total financial assets	**1 631 048 556**	**-**	**21 329 765**	**846 525**	**1 793 855**	**1 655 018 701**
Financial liabilities						
Customer accounts	1 070 792 412	919 988	60 581	-	-	1 071 772 981
Margin account under reverse repo	-	-	417 707	-	-	417 707
Central counterparty financial liabilities	518 509 253	-	-	-	-	518 509 253
Other financial liabilities	53 332	168 789	33 635	41 187	-	296 943
Total financial liabilities	**1 589 354 997**	**1 088 777**	**511 923**	**41 187**	**-**	**1 590 996 884**
Liquidity gap	**41 693 559**	**(1 088 777)**	**20 817 842**	**805 338**	**1 793 855**	
Cumulative liquidity gap	**41 693 559**	**40 604 782**	**61 422 624**	**62 227 962**	**64 021 817**	

The following tables detail a contractual maturity analysis of the Bank's financial liabilities with fixed maturities. The tables present undiscounted cash flows of the Bank's financial liabilities based on the earliest date on which the Bank can be required to pay. The tables include both interest and principal cash flows.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	December 31, 2016 Total
Financial liabilities					
Customer accounts	569 928 907	10 039 792	-	-	579 968 699
Central counterparty financial liabilities	1 429 932 504	303 331 344	-	-	1 733 263 848
Other financial liabilities	103 048	240 146	18 924	31 862	393 980
Total financial liabilities	**1 999 964 459**	**313 611 282**	**18 924**	**31 862**	**2 313 626 527**

(in thousands of Russian rubles, unless otherwise indicated)

24. Risk management policies (continued)

Liquidity risk (continued)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	December 31, 2015 Total
Financial liabilities					
Customer accounts	1 071 220 694	926 758	62 827	-	1 072 210 279
Margin account under reverse repo	-	-	420 817	-	420 817
Central counterparty financial liabilities	518 509 253	-	-	-	518 509 253
Other financial liabilities	53 332	168 789	33 635	41 187	296 943
Total financial liabilities	**1 589 783 279**	**1 095 547**	**517 280**	**41 187**	**1 591 437 293**

Operational risk

Operational risk is the risk of direct or indirect losses arising from a wide variety of risk events associated with the internal processes, personnel, technology and infrastructure, and from external factors (other than credit, market and liquidity risks) such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior or IT failure.

With respect to NCC activities as a central counterparty operational risk is triggered off by failures in regular work of functional areas of NCC, technical and IT facilities, rules and requirements to Bank’s operations besides all due to mistakes, unintentional and deliberate misperformance, technical failures and also external circumstances.

The Board of Directors has overall responsibility for the oversight of operational risk management, reviewing risk management policies and procedures. The risk assessment, reporting and control procedures vary by exposure type, but share a common methodology developed and updated periodically by the risk management personnel.

Both external and internal risk factors are identified and managed throughout the business units within their functional areas. The primary responsibility for the implementation of operational risk controls is assigned to management within each business unit of the Bank.

Operational risk management includes reputational, compliance and legal risks governance as well.

Moreover, strategic risk (risk of non achievement of strategic goals within certain deadline or resources) is also monitored and managed under the operational risk management framework.

Legal risk

Legal risk is associated with losses due to breaches of contractual obligations, trial, criminal and administrative liability of NCC and/or its management in the performance of their official duties. Losses attributed to legal risk are recorded in risk events database along with operational risk losses.

Legal risk management procedures include:

- monitoring of legislation and internal procedures for compliance with the up-to-date requirements on a regular basis;
- setting quantitative and volume limits for legal claims and control over limits set;
- analysis of legal basis for all new products and services;
- update of internal regulations in order to prevent fines.

24. Risk management policies (continued)

Compliance risk

Compliance risk is the risk of losses resulting from Bank activities being inconsistent with the law, the Charter and internal regulations.

Compliance risk is managed by Internal Control department that takes the following actions in order to prevent losses due to compliance risk realization:

- legislation monitoring;
- interaction with the CBR regarding the specifics of upcoming regulation;
- compliance risk identification in existing and planned internal procedures;
- best-practice analysis of internal control measures.

Reputational risk

Reputational risk is the risk of losses due to the negative public view on the operational (technical) stability of NCC, its service quality and business in general. In order to avoid such losses the Bank constantly monitor its appearance in media along with internal processes using the methodology of assessment the impact of each event. The major source of reputational risk is realization of operational risk, specifically when it becomes public. Thus, all actions taken to prevent NCC from operational risk at the same time help to decrease the level of reputational risk.

25. Offsetting of financial instruments

Gross claims and liabilities with individual counterparties under CCP currency transactions are offset in accordance with IAS 32.

Direct and reverse repo transactions of CCP with individual counterparties are subject to clearing rules that create a contingent right of set-off that does not qualify for offsetting. Clearing participants are required to deposit collateral in the form of cash or securities for current deals and make contribution to guarantee funds, as described in Note 24. Clearing rules give the Bank right to use these amounts under certain conditions (e.g. in case of default). However, offsetting criteria is not met as there is no intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Reverse repo transactions with financial institutions are subject to master agreements entered into with these insitutions. Master agreements give the Bank right to settle amounts relating to these transactions on a net basis under certain conditions (e.g. in case of default). However, offsetting criteria is not met as there is no enforceable right to set off in the normal course of business.

The table below shows financial assets and liabilities offset in the statement of financial position, as well as the effect of clearing agreements that do not result in an offset in the statement of financial position:

(in thousands of Russian rubles, unless otherwise indicated)

25. Offsetting of financial instruments (continued)

	December 31, 2016			Related amounts not set off in the statement of the financial position		
	Gross claims	Gross liabilities	Net amount presented in financial statements	Financial instruments	Cash collateral received	Net amount
Financial assets						
Due from financial institutions (Reverse repo receivables from financial institutions)	47 887 681	-	47 887 681	(47 887 681)	-	-
CCP financial assets (repo transactions)	1 730 377 026	-	1 730 377 026	(1 730 377 026)	-	-
CCP financial assets (currency transactions)	9 079 276	(6 192 454)	2 886 822	-	(2 886 822)	-
Total financial assets	**1 787 343 983**	**(6 192 454)**	**1 781 151 529**	**(1 778 264 707)**	**(2 886 822)**	**-**
Financial liabilities						
CCP financial liabilities (repo transactions)	-	(1 730 377 026)	(1 730 377 026)	1 730 377 026	-	-
CCP financial liabilities (currency transactions)	3 060 914	(5 947 736)	(2 886 822)	-	-	(2 886 822)
Total financial liabilities	**3 060 914**	**(1 736 324 762)**	**(1 733 263 848)**	**1 730 377 026**	**-**	**(2 886 822)**

	December 31, 2015			Related amounts not set off in the statement of the financial position		
	Gross claims	Gross liabilities	Net amount presented in financial statements	Financial instruments	Cash collateral received	Net amount
Financial assets						
Due from financial institutions (Reverse repo receivables from financial institutions)	21 279 042	-	21 279 042	(21 279 042)	-	-
CCP financial assets (repo transactions)	512 737 365	-	512 737 365	(512 737 365)	-	-
CCP financial assets (currency transactions)	9 752 288	(3 980 400)	5 771 888	-	(5 771 888)	-
Total financial assets	**543 768 695**	**(3 980 400)**	**539 788 295**	**(534 016 407)**	**(5 771 888)**	**-**
Financial liabilities						
CCP financial liabilities (repo transactions)	-	(512 737 365)	(512 737 365)	512 737 365	-	-
CCP financial liabilities (currency transactions)	3 083 412	(8 855 300)	(5 771 888)	-	-	(5 771 888)
Margin account under reverse repo		(417 707)	(417 707)	-	-	(417 707)
Total financial liabilities	**3 083 412**	**(522 010 372)**	**(518 926 960)**	**512 737 365**	**-**	**(6 189 595)**