Central Counterparty National Clearing Centre

Financial Statements
For the Year Ended December 31, 2017

Central Counterparty National Clearing Center

Contents

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INDEPENDENT AUDITOR'S REPORT

To: the shareholder and Supervisory Board of Central Counterparty National Clearing Centre

Opinion

We have audited the financial statements of Central Counterparty National Clearing Centre ("the Organization") which comprise the statement of financial position as at December 31, 2017 and the statements of comprehensive income, statement of changes in equity and statement of cash flows for 2017, and notes to 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 Organization as at December 31, 2017 and its financial performance and its cash flows for 2017 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 Organization 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. 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 those charged with governance 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 Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken 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 annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Other Matter

The financial statements of the Organization for the year ended December 31, 2016, were audited by another auditor, who expressed an unmodified opinion on those financial statements on April 7, 2017.

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

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

According to Article 42 of the Federal Law No. 395-1 "On Banks and Banking Activities" dated 2 December 1990 (hereinafter, the "Federal Law") in the course of our audit of the Organization's annual financial statements for 2017 we performed procedures with respect to the Organization's compliance with the obligatory ratios as at January 1, 2018 and compliance of its internal control and risk management systems with the CBRF requirements.

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

We report our findings below:

1. with respect to the Organization's compliance with the obligatory ratios: the obligatory ratios as at January 1, 2018 were within the limits established by the CBRF.

   We have not performed any procedures with respect to the Organization's financial information other than those we considered necessary to express our opinion on whether the annual financial statements of the Organization present fairly, in all material respects, the financial position of the Organization as at January 1, 2018, its financial performance and its cash flows for 2017 in accordance with International Financial Reporting Standards.

2. with respect to compliance of the Organization's internal control and risk management systems with the CBRF requirements:

   (a) In accordance with the CBRF requirements and recommendations as at December 31, 2017 the Organization's internal audit department was subordinated and accountable to the Organization's Supervisory Board and the Organization's risk management departments were not subordinated or accountable to the departments undertaking the respective risks, the heads of the Organization's risk management and internal audit departments comply with qualification requirements established by the CBRF;
   (b) As at December 31, 2017, the Organization had duly approved in accordance with the CBRF requirements and recommendations the internal policies regarding identification and management of significant risks, including credit, operating, market, interest rate, legal, liquidity, and reputational risks, as well as regarding performance of stress-testing;
   (c) As at December 31, 2017, the Organization had a reporting system with regard to the Organization's significant credit, operating, market, interest rate, legal, liquidity and reputational risks, and with regard to the Organization's capital;
   (d) Frequency and sequential order of reports prepared by the Organization's risk management and internal audit departments in 2017 on management of credit, operating, market, interest rate, legal, liquidity and reputational risks were in compliance with the Bank's internal policies; these reports included results of monitoring by the Organization's risk management and internal audit departments of effectiveness of the Organization's respective methodologies and improvement recommendations;
   (e) As at December 31, 2017, the authority of the Organization's Supervisory Board and the Organization's executive bodies included control over compliance with the risk limits and capital adequacy ratios established by the Organization.
   In order to control effectiveness and consistency of application of the Organization's risk management policies, during 2017 the Organization's Supervisory Board and the Organization's executive bodies have regularly discussed reports prepared by the risk management and internal audit departments and have considered proposed corrective measures.

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

Sergei Neklyudov,
Engagement Partner

Deloitte & Touche

6 April 2018

The Entity: Central Counterparty National Clearing Centre

General Banking License № 3466-CC, issued by the Central Bank of Russian Federation by 28.11.2017

Primary State Registration Number: 1067711004481

Certificate of registration in the Unified State Register № 77№010075586 of 30.05.2006, issued by Administration of Federal Tax Service if Moscow.

Address: 125009, Moscow, Bolshoy Kislovsky per. 13

Audit Firm: ZAO "Deloitte & Touche CIS"

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulated organization of auditors "Russian Union of auditors" (Association), ORNZ 11603080484.

Central Counterparty National Clearing Center

Statement of Comprehensive Income
(in thousands of Russian rubles)

	Notes	Year ended December 31, 2017	Year ended December 31, 2016
Interest income	5	14 515 155	20 147 249
Interest expense	5	(1 173 823)	(593 579)
Net interest income		**13 341 332**	**19 553 670**
Fee and commission income	6	6 963 290	6 434 719
Net gain on financial assets available-for-sale		840 646	1 595 370
Net gain / (loss) on foreign exchange operations	7	407 084	(369 690)
Other income		2 068	4 865
Operating income		**21 554 420**	**27 218 934**
Personnel expenses	8	(636 523)	(638 588)
Administrative and other operating expenses	9	(813 484)	(777 489)
Profit before tax		**20 104 413**	**25 802 857**
Income tax expense	10	(3 748 211)	(4 871 463)
Net profit		**16 356 202**	**20 931 394**
Other comprehensive income that may be reclassified subsequently to profit or loss			
Revaluation of financial assets available-for-sale		1 277 006	1 693 834
Net gain on investments available-for sale reclassified to profit or loss		(840 646)	(1 595 370)
Deferred income tax		(87 272)	(19 693)
Other comprehensive income that may be reclassified subsequently to profit or loss		**349 088**	**78 771**
Total comprehensive income		**16 705 290**	**21 010 165**

Chairman of the Management Board
Khavin Alexey Sergeevich

April 6, 2018
Moscow

НКО НКЦ (АО)
Небанковская кредитная организация-центральный контрагент «Национальный Клиринговый Центр» • Акционерное общество • Москва •

Chief Accounting Officer
Gorina Marina Petrovna

April 6, 2018
Moscow

Notes 1-26 form an integral part of these financial statements.

Statement of Financial Position
(in thousands of Russian rubles)

	Notes	December 31, 2017	December 31, 2016
ASSETS			
Cash and cash equivalents	11	306 499 826	375 102 062
Mandatory cash balances with Central Bank of the Russian Federation		6 010 627	3 240 788
Derivatives recognized at fair value through profit or loss		413 618	-
Due from banks and other financial institutions	12	51 429 690	55 968 053
Financial assets of central counterparty	13	2 430 083 747	1 733 263 848
Financial assets available-for-sale	14	196 897 672	205 639 372
Property and equipment and intangible assets	15	181 712	103 522
Deferred tax assets	10	168 519	1 723 939
Current income tax assets		199 765	-
Other assets	16	2 677 821	806 450
Total assets		**2 994 562 997**	**2 375 848 034**
LIABILITIES			
Customer accounts	17	507 206 788	583 566 219
Derivatives recognized at fair value through profit or loss		6 278	-
Financial liabilities of central counterparty	13	2 430 083 747	1 733 263 848
Current income tax liabilities		-	883 189
Other liabilities	18	702 061	596 458
Total liabilities		**2 937 998 874**	**2 318 309 714**
EQUITY			
Share capital	19	16 670 000	16 670 000
Paid-in capital	19	347 144	347 144
Investments revaluation reserve		1 291 659	942 571
Payments based on the shares of the parent company		29 178	44 685
Retained earnings		38 226 142	39 533 920
Total equity		**56 564 123**	**57 538 320**
Total liabilities and equity		**2 994 562 997**	**2 375 848 034**

Notes 1-26 form an integral part of these financial statements.

Central Counterparty National Clearing Center

Statement of Cash Flows
(in thousands of Russian rubles)

	Notes	Year ended December 31, 2017	Year ended December 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before tax		20 104 413	25 802 857
Adjustments for:			
Gain from disposal of financial assets available-for-sale		(840 646)	(1 595 370)
Revaluation of derivatives		(407 084)	-
Change in interest accruals, net		(859 184)	167 288
Net change in deferred commission income		122 472	(40 666)
Unrealized loss / (gain) on foreign exchange operations		135	(149 433)
Other accruals		98 772	40 612
Depreciation and amortization charge	9	32 875	44 402
Payments based on the shares of the parent company	8	20 052	29 094
Net gains on disposal of property and equipment and intangible assets		(8)	-
Cash flows from operating activities before changes in operating assets and liabilities		**18 271 797**	**24 298 784**
Changes in operating assets and liabilities:			
Mandatory cash balances with Central Bank of the Russian Federation		(2 769 839)	(1 448 634)
Due from banks and other financial institutions		1 820 159	(25 462 250)
Financial assets of central counterparty		(711 775 118)	(1 214 754 595)
Other assets		(1 974 836)	159 026
Customer accounts		(89 777 098)	(383 087 660)
Margin account settlements		384 647	(417 696)
Financial liabilities of central counterparty		711 775 118	1 214 754 595
Other liabilities		1 409	29 229
Net cash flows from operating activities before income tax		(74 043 761)	(385 929 201)
Income tax paid		(3 363 017)	(7 741 075)
Cash outflows from operating activities		**(77 406 778)**	**(393 670 276)**
CASH FLOWS USED IN INVESTING ACTIVITIES:			
Purchase of financial assets available-for-sale		(165 686 545)	(196 303 670)
Proceeds from sale of financial assets available-for-sale		173 737 547	135 698 619
Purchase of property and equipment and intangible assets		(111 065)	(51 130)
Proceeds from disposal of property and equipment and intangible assets		8	-
Net cash flows from/(used in) investing activities		**7 939 945**	**(60 656 181)**

Notes 1-26 form an integral part of these financial statements.

Statement of Cash Flows
(in thousands of Russian rubles)

	Notes	Year ended December 31, 2017	Year ended December 31, 2016
Dividends paid		(17 699 539)	(25 399 912)
Net cash outflow from financing activities		**(17 699 539)**	**(25 399 912)**
Effect of changes in foreign exchange rates on cash and cash equivalents		18 564 136	(80 513 532)
Net decrease in cash and cash equivalents		**(68 602 236)**	**(560 239 901)**
Cash and cash equivalents, beginning of the year	11	**375 102 062**	**935 341 963**
Cash and cash equivalents, end of the year	11	**306 499 826**	**375 102 062**

Interest paid and received for the year ended December 31, 2017, amounted to RUB 1 307 787 thousand and RUB 13 789 935 thousand respectively.

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

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, 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**
Comprehensive income for the period		**-**	**-**	**349 088**	**-**	**16 356 202**	**16 705 290**
Transactions with owners							
Dividends declared		-	-	-	-	(17 699 539)	(17 699 539)
Payments based on the shares of the parent company	8	-	-	-	(15 507)	35 559	20 052
Total transactions with owners		**-**	**-**	**-**	**(15 507)**	**(17 663 980)**	**(17 679 487)**
December 31, 2017		**16 670 000**	**347 144**	**1 291 659**	**29 178**	**38 226 142**	**56 564 123**

Notes 1-26 form an integral part of these financial statements.

1. Organization

Non-banking credit institution - Central Counterparty National Clearing Centre (NCC) is a joint-stock organization, which was incorporated in the Russian Federation in 2006. NCC 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-CC and license No. 077-00003-000010, respectively.

In November 2017 NCC was assigned a new status of a non-banking credit institution. From the moment of foundation in May 2006 to the assignment of a new status, NCC functioned as a bank with the name Bank National Clearing Centre JSC.

NCC is a member of Moscow Exchange Group ("Group") and as at December 31, 2017 and 31 December 2016, 100% of NCC's shares are held by PJSC Moscow Exchange MICEX-RTS ("Moscow Exchange").

NCC acts as a central counterparty (CCP) and specializes in providing clearing services on foreign exchange and precious metals market, securities, deposit, 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 NCC 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 NCC 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.

NCC maintains its accounting records in accordance with Russian Accounting Standards ("RAS"). These financial statements have been prepared from NCC'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)

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 NCC's statement of financial position when NCC becomes a party to the contractual provisions of the instrument. NCC 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 NCC 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 NCC 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 NCC 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, NCC would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

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.

3. Significant accounting policies (continued)

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.

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;
- NCC 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;
- NCC 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, NCC 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, NCC assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where NCC retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

3. Significant accounting policies (continued)

Offsetting of financial assets. Financial assets and financial liabilities are offset and the net amount is reported in the 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 NCC'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. NCC 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. NCC 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'.

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. NCC derecognizes financial liabilities when, and only when, NCC'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.

3. Significant accounting policies (continued)

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 2017: 20%-48% (2016: 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 2017 were 10%-33% (2016: 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.

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 NCC 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 NCC's activities. These taxes are included as a component of operating expense in the statement of comprehensive income.

(in thousands of Russian rubles, unless otherwise indicated)

3. Significant accounting policies (continued)

Payments based on the shares of the parent company. The Group grants the right to some employees of NCC 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 NCC'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.

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 NCC in the preparation of the financial statements as at year-end are as follows:

	December 31, 2017	**December 31, 2016**
USD/RUB	57,6002	60,6569
EUR/RUB	68,8668	63,8111

Equity reserves. Reserves recorded in equity (other comprehensive income) at NCC'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, NCC 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, 2017.

3. Significant accounting policies (continued)

The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to NCC'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 NCC:

Amendments to IAS 7 Disclosure Initiative. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The application of these amendments has had no impact on NCC's financial statements as NCC has no liabilities arising from financing activities both as at December 31, 2017 and as at December 31, 2016.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

The application of these amendments has had no impact on NCC's financial statements.

Annual Improvements to IFRSs 2014-2016 Cycle. NCC has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by NCC.

IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on NCC's financial statements as at December 31, 2017 and December 31, 2016 as none of NCC's interests in these entities are classified, or included in a disposal group that is classified, as held for sale.

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

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

3. Significant accounting policies (continued)

Key requirements of IFRS 9:

- **Classification and measurement of financial assets.** All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- **Classification and measurement of financial liabilities.** With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- **Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on an analysis of NCC's financial assets and financial liabilities as at December 31, 2017 on the basis of the facts and circumstances that exist at that date, NCC has assessed the impact of IFRS 9 to NCC's financial statements as follows:

- Classification and measurement. Amounts due from financial institutions and central counterparty financial assets and liabilities carried at amortised cost: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of IFRS 9;
- Listed bonds classified as available-for-sale investments carried at fair value as disclosed in Note 14: these are held within a business model whose objective is achieved both by collecting contractual cash flows and selling the bonds in the open market, and their contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal outstanding. Accordingly, the listed bonds will continue to be subsequently measured at FVTOCI upon the application of IFRS 9 , and the fair value gains or losses accumulated in the investment revaluation reserve will continue to be subsequently reclassified to profit or loss when the listed bonds are derecognised or reclassified except those the contractual terms of which are not solely payments of principal and interest;

3. Significant accounting policies (continued)

- All other financial assets and financial liabilities will continue to be measured under IFRS 9 on the same bases as is currently adopted under IAS 39.

Impairment. Financial assets measured at amortised cost and listed bonds that will be carried at FVTOCI under IFRS 9 will be subject to the impairment provisions of IFRS 9.

NCC expects to apply the simplified approach to recognise lifetime expected credit losses for amounts due from financial institutions, cash and cash equivalents and receivables as required or permitted by IFRS 9. Management of NCC considers that they have low credit risk given their strong external credit rating and hence expect to recognise 12-month expected credit losses for these items. In relation to Central counterparty financial assets (Note 13), NCC has assessed that they are fully collateralised, regularly stress tested and covered by guarantee funds.

In general, given low credit risk of NCC's financial assets, measured at amortized cost, and carried at FVTOCI, NCC estimates the total effect of expected loss provision will be no higher than RUB 300 million.

IFRS 15 Revenue from Contracts with Customers. IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations in the contract;
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

Management of NCC does not anticipate that the application of IFRS 15 will have a significant impact on the financial position of NCC.

IFRS 16 Leases. IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

3. Significant accounting policies (continued)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted. NCC does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions. The amendments clarify the following:

- In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
- Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:

- The original liability is derecognised;
- The equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
- Any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The amendments are effective for annual reporting periods beginning on or after January 1, 2018 with earlier application permitted. Specific transition provisions apply. Management of NCC does not anticipate that the application of the amendments in the future will have a significant impact on NCC's financial statements.

Amendments to IAS 40 Transfers of Investment Property. The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in IAS 40 May evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

The amendments are effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. Entities can apply the amendments either retrospectively (if this is possible without the use of hindsight) or prospectively. Specific transition provisions apply.

NCC does not anticipate that the application of the amendments in the future will have a significant impact on NCC's financial statements.

3. Significant accounting policies (continued)

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. Management of NCC does not anticipate that the application of the amendments in the future will have a significant impact on NCC's financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration. IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The Interpretation is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

Management of NCC does not anticipate that the application of this IFRIC will have a material impact on NCC's financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

Determine whether uncertain tax positions are assessed separately or as a group; and

Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:

If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.

If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted. Entities can apply the Interpretation either fully retrospectively (if it is possible without the use of hindsight) or to apply modified retrospective approach without restatement of comparatives.

Management of NCC does not anticipate that the application of this IFRIC will have a material impact on NCC's financial statements.

3. Significant accounting policies (continued)

Amendments to IFRS 9 Prepayment Features with Negative Compensation. The narrow-scope amendments remedy an unintended consequence to the notion of 'reasonable additional compensation'. The amendments allow financial assets with a prepayment option that could result in the option's holder receiving compensation for early termination to meet the SPPI condition if specified criteria are met.

In addition to that, the IASB considered the accounting for financial liabilities that are modified or exchanged that do not lead to derecognition and as a result included in the Basis for Conclusion two paragraphs on that matter. In those paragraphs the Board observes that the accounting in such cases is the same as it is for modifying a financial asset. If the gross carrying amount is changed it will lead to an immediate gain or loss in profit or loss.

The amendments apply retrospectively to annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

Management of NCC does not anticipate that the application of these amendments will have a material impact on NCC's financial statements.

Amendments to IAS 28 Long-Term Interests in Associates and Joint Ventures.
The amendments clarify that IFRS 9, including its impairment requirements, applies to long-term interests in associates and joint ventures that form part of an entity's net investment in these investees. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The amendments are effective for annual periods beginning on or after January 1, 2019 with earlier application permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9.

Management of NCC does not anticipate that the application of these amendments will have a material impact on NCC's financial statements.

Annual Improvements to IFRSs 2014 - 2016 Cycle. The Annual Improvements include amendments to IFRS 1 and IAS 28 which are not yet mandatorily effective for NCC. The package also includes amendments to IFRS 12 which is mandatorily effective for NCC in the current year.

The amendments to IAS 28 clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture. In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. The amendments apply retrospectively with earlier application permitted.

Both the amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018. NCC does not anticipate that the application of the amendments in the future will have any impact on NCC's financial statements as NCC is neither a first-time adopter of IFRS nor a venture capital organisation.

Annual Improvements to IFRSs 2015-2017 Cycle. Annual Improvements to IFRSs 2015-2017 Cycle makes amendments to several standards.

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

The amendments to IAS 12 clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.

3. Significant accounting policies (continued)

The amendments to IAS 23 clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

All amendments are effective for annual periods beginning on or after January 1, 2019.

Management of NCC does not anticipate that the application of these amendments will have a material impact on NCC's financial statements.

4. Critical accounting judgments and key sources of estimation uncertainty

In the process of applying NCC'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. NCC regularly reviews its receivables to analyze them for impairment.

NCC 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, NCC 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 December 31, 2017, the gross receivables (Note 16) totaled RUB 98 075 thousand (December 31, 2016: RUB 231 776 thousand). Based on the impairment analysis, NCC has created an allowance for impairment of receivables in amount of RUB 465 thousand (December 31, 2016: 22 907).

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.

(in thousands of Russian rubles, unless otherwise indicated)

5. Interest income and expense

	Year ended December 31, 2017	Year ended December 31, 2016
Interest income on financial assets at fair value through other comprehensive income		
Interest income on financial assets available-for-sale	11 226 471	14 062 155
Total interest income on financial assets at fair value through other comprehensive income	**11 226 471**	**14 062 155**
Interest income on financial assets at amortized cost		
Interest income on due from banks and other financial institutions	2 140 860	3 923 251
Interest income on cash and cash equivalents	1 147 824	2 161 843
Total interest income on financial assets at amortized cost	**3 288 684**	**6 085 094**
Total interest income	**14 515 155**	**20 147 249**
Interest expense		
Interest expense on term deposits	(858 382)	(478 662)
Interest expense on stress collateral	(166 099)	(100 946)
Interest expense on REPO deals and other borrowed funds	(149 342)	(13 971)
Total interest expense	**(1 173 823)**	**(593 579)**

The fee and commission income reduced by paid expenses incurred by NCC in relation to interest accrued on negative interest rates on correspondent accounts placed with non-resident banks as a part of clearing activities for execution of client orders and re-issued to customers in accordance with the clearing rules.

6. Fee and commission income

	Year ended December 31, 2017	Year ended December 31, 2016
Clearing services for money market	3 771 510	3 316 978
Clearing services for foreign exchange market	1 639 634	1 768 412
Clearing services for securities market	1 500 868	1 312 931
Clearing services for derivatives market	27 007	25 177
Other commissions	24 271	11 221
Total fee and commission income	**6 963 290**	**6 434 719**

(in thousands of Russian rubles, unless otherwise indicated)

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

	Year ended December 31, 2017	Year ended December 31, 2016
Foreign exchange swaps	410 114	(482 887)
Net other foreign exchange (loss) / gain	(3 030)	113 197
Total net gain / (loss) on foreign exchange operations	**407 084**	**(369 690)**

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

8. Personnel expenses

	Year ended December 31, 2017	Year ended December 31, 2016
Personnel expenses	520 979	520 142
Payroll taxes and charges	95 492	89 352
Payments based on the shares of the parent company	20 052	29 094
Total personnel expenses	**636 523**	**638 588**

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, 2016	5 066 669	60,6
Expired	(372 267)	57,6
Exercised	(1 777 733)	57,6
Outstanding at December 31, 2016	**2 916 669**	**62,7**
Granted during the year	1 950 000	109,1
Forfeited	(333 334)	46,9
Expired	(616 134)	63,2
Exercised	(800 534)	63,2
Outstanding at December 31, 2017	**3 116 667**	**68,3**

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, 2017 was 1 year (December 31, 2016: 1 year). The weighted average fair value of rights granted during the year ended December 31, 2017 was RUB 18,85 per 1 right. Exercise prices for rights outstanding as at December 31, 2017 were RUB 60,64 – RUB 109,4 (December 31, 2016: RUB 46,9 – RUB 67,7).

(in thousands of Russian rubles, unless otherwise indicated)

9. Administrative and other operating expenses

	Year ended December 31, 2017	Year ended December 31, 2016
Information and technological services	260 724	259 671
Settlement services and bank fees	122 623	131 324
Professional services	112 096	64 435
Maintenance of property and equipment and intangible assets	83 865	67 603
Taxes, other than income tax	80 792	79 832
Lease of property and equipment	62 483	64 773
Depreciation and amortization charge	32 875	44 402
Depository services	27 212	25 580
Communications services	7 110	7 834
Other	23 704	32 035
Total administrative and other operating expenses	**813 484**	**777 489**

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

10. Income tax expense

	Year ended December 31, 2017	Year ended December 31, 2016
Current income tax expense	2 280 063	8 285 261
Deferred taxation movement	1 468 148	(3 413 798)
Total income tax expense	**3 748 211**	**4 871 463**

NCC 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 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, 2017	Year ended December 31, 2016
Profit before income tax	**20 104 413**	**25 802 857**
Tax at the statutory tax rate (20%)	4 020 883	5 160 571
Tax effect of income taxed at rates other than the 20% rate	(267 205)	(318 235)
Tax effect of permanent differences	(5 467)	29 127
Income tax expense	**3 748 211**	**4 871 463**

(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 December 31, 2017 and 2016, comprise:

	Statement of financial position		Recognized in profit or loss	
	December 31, 2017	December 31, 2016	Year ended December 31, 2017	Year ended December 31, 2016
Effect of deductible temporary differences				
Financial assets available-for-sale	152 682	1 628 028	(1 475 346)	1 628 028
Property and equipment and intangible assets	1 216	449	767	437
Other assets	-	5 718	(5 718)	(1 291)
Other liabilities	116 539	89 744	26 795	(4 915)
Total effect of deductible temporary differences	**270 437**	**1 723 939**	**(1 453 502)**	**1 622 259**
Effect of taxable temporary differences				
Financial assets at fair value through profit or loss	(82 724)	-	(82 724)	-
Financial assets available-for-sale	-	-	87 272	1 791 539
Other assets	(19 194)	-	(19 194)	-
Total effect of taxable differences	**(101 918)**	**-**	**(14 646)**	**1 791 539**
Total deferred income tax expense			**(1 468 148)**	**3 413 798**
Deferred tax assets	**168 519**	**1 723 939**		

	Year ended December 31, 2017	Year ended December 31, 2016
Beginning of the period – deferred tax assets (liabilities)	**1 723 939**	**(1 670 166)**
Change in deferred tax recognized in profit or loss	(1 468 148)	3 413 798
Change in deferred tax recognized in other comprehensive income	(87 272)	(19 693)
End of the period – deferred tax assets	**168 519**	**1 723 939**

(in thousands of Russian rubles, unless otherwise indicated)

11. Cash and cash equivalents

	December 31, 2017	December 31, 2016
Correspondent accounts and overnight deposits with other credit organizations	280 497 468	354 098 876
Balances with the Bank of Russia	25 999 078	21 001 754
Cash on hand	2 745	1 264
Settlements on brokerage operations	535	168
Total cash and cash equivalents	**306 499 826**	**375 102 062**

As at December 31, 2017, cash and cash equivalents include balances with ten counterparties (December 31, 2016: with four counterparties) in the amount of RUB 298 545 983 thousand (December 31, 2016: RUB 297 410 411 thousand), which is a significant concentration.

12. Due from banks and other financial institutions

	December 31, 2017	December 31, 2016
Reverse repurchase agreements with financial institutions	46 935 227	47 887 681
Correspondent accounts in precious metals	3 314 977	404 538
Term deposits	1 179 486	-
Other time deposits with the CBR	-	5 004 090
Deposits in precious metals	-	2 671 744
Total due from banks and other financial institutions	**51 429 690**	**55 968 053**

As at December 31, 2017, the fair value of bonds pledged under reverse repurchase agreements with financial institutions was RUB 61 015 651 thousand (December 31, 2016: RUB 62 517 076 thousand).

13. Financial assets and liabilities of central counterparty

	December 31, 2017	December 31, 2016
Repo transactions	2 428 116 927	1 730 377 026
Currency transactions	1 966 820	2 886 822
Total financial assets and liabilities of central counterparty	**2 430 083 747**	**1 733 263 848**

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 NCC in its capacity of central counterparty. Fair value of securities pledged as collateral under direct repo transactions is RUB 2 972 270 753 thousand (December 31, 2016: RUB 1 924 488 084 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 0.

As at December 31, 2017, there was no allowance created for financial assets of central counterparty (December 31, 2016: no allowance) and these financial assets were not overdue (December 31, 2016 not overdue).

(in thousands of Russian rubles, unless otherwise indicated)

14. Financial assets available-for-sale

	December 31, 2017	December 31, 2016
Bonds issued by Russian Federation	111 792 407	124 013 933
Bonds issued by Russian companies	60 388 265	56 170 575
Bonds issued by Russian commercial banks	21 674 739	21 872 698
Bonds issued by international financial organizations	3 040 560	3 580 465
Corporate shares of SWIFT	1 701	1 701
Total investments available-for-sale	**196 897 672**	**205 639 372**

15. Property, equipment and intangible assets

	Furniture & Equipment	Intangible assets	Trademark	Intangible assets in progress	Total
Cost					
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**
Additions	26 231	37 204	1 830	45 800	111 065
Disposals	(54)	(440)	-	-	(494)
December 31, 2017	**73 499**	**223 901**	**1 830**	**45 800**	**345 030**
Accumulated depreciation					
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**
Charge for the period	8 675	24 014	186	-	32 875
Disposals	(54)	(440)	-	-	(494)
December 31, 2017	**48 412**	**114 720**	**186**	**-**	**163 318**
Net book value					
December 31, 2016	**7 531**	**95 991**	**-**	**-**	**103 522**
December 31, 2017	**25 087**	**109 181**	**1 644**	**45 800**	**181 712**

As at 31 December 2017, NCC's historical cost of fully depreciated property and equipment amounts to RUB 44 263 thousand (31 December 2016: RUB 19 326 thousand).

(in thousands of Russian rubles, unless otherwise indicated)

16. Other assets

	December 31, 2017	December 31, 2016
Other financial assets		
Receivables on services rendered	98 075	209 151
Receivables on transactions with securities	-	22 625
Less allowance for impairment	(465)	(22 907)
Total other financial assets	**97 610**	**208 869**
Other non-financial assets		
Precious metals	2 539 036	561 099
Prepayments and other receivables	39 621	35 245
Taxes receivable other than income tax	1 554	1 237
Total other non-financial assets	**2 580 211**	**597 581**
Total other assets	**2 677 821**	**806 450**

17. Customer accounts

	December 31, 2017	December 31, 2016
Accounts of clearing participants	473 230 884	544 853 236
Current accounts	21 331 760	14 837 171
Accounts in precious metals	5 854 012	3 637 314
Guarantee fund on securities, deposit and derivatives markets	4 265 159	3 182 865
Guarantee fund on foreign currency market and precious metals market	2 041 469	755 922
Margin account	384 647	-
Term deposits	98 857	16 262 711
Guarantee fund on OTC derivatives market	-	37 000
Total customer accounts	**507 206 788**	**583 566 219**

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 NCC's ability to guarantee proper settlements of open positions in case of a market participant default.

(in thousands of Russian rubles, unless otherwise indicated)

18. Other liabilities

	December 31, 2017	December 31, 2016
Other financial liabilities		
Payables to personnel	224 111	238 971
Payables for depositary and settlement operations	49 810	61 753
Payables on information and technological services	26 626	25 327
Payables for unused vacations	25 014	20 122
Payables to clearing participants with revoked licences	30 020	39 168
Other	21 839	8 639
Total other financial liabilities	**377 420**	**393 980**
Other non-financial liabilities		
Deferred commission income	321 513	199 041
Taxes payable, other than income tax	3 128	3 437
Total other liabilities	**702 061**	**596 458**

19. Share capital and paid-in capital

As at December 31, 2017 and 2016 NCC's share capital consists of 16 670 000 issued and paid ordinary shares with the nominal value of RUB 1 thousand each.

NCC'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 December 31, 2017, the reserve fund amounted to RUB 966 775 thousand (December 31, 2016: 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 9 500 000 thousand (December 31, 2016: RUB 9 500 00 thousand);
- Funds for termination or restructuring of CCP activities, in amount of RUB 599 109 thousand (December 31, 2016: RUB 593 310 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 299 555 thousand (December 31, 2016: RUB 296 655 thousand).

20. Commitments and contingencies

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

	December 31, 2017	December 31, 2016
Less than 1 year	36 183	30 949

Operating lease commitments presented by the contracts with Group participants (Note 21).

20. Commitments and contingencies (continued)

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

One of the regional brokers, whose license was revoked by CBR at the end of 2015, undergone bankruptcy procedure in autumn 2016. The bankruptcy trustee and the brokers' creditors filed claims with the arbitration court to void several deals concluded by the broker before it went bankrupt.
In particular, pursuers sued one of the NCC’s entities, acting as the central counterparty, challenging the standard clearing procedures on foreclosure of positions of the broker in October 2015. The total amount of securities sold as the result of foreclosure was RUB 873 041 million. According to the legislation, the cash received was used by the central counterparty to settle obligations with non-defaulting counterparties of the related deals. This is the standard clearing mechanism established by laws and regulations and routinely applied by the central counterparty to defaulted market participants. As of March 16, 2018 the arbitration court decided to satisfy the claim of the bankruptcy trustee regarding the void several deals and the return of cash to the bankruptcy estate in the amount of 873 041 thousand rubles. The NCC, considering the court's unjustified decision, filed an appeal with the court. NCC estimates the risk of economic resources outflow as a result of the claim as average. The NCC is confident in its legal position.

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 NCC’s future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of NCC’s business in the current circumstances.

Taxation – Major part of NCC’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. NCC's interpretation of such legislation as applied to the transactions and activity of NCC may be challenged by the relevant regional and federal authorities. Tax authorities may be taking a more assertive position in their interpretation and application of this legislation and tax settlements review. However, the probability of unfavorable outcome in case of suits from tax authorities cannot be reliably measured. 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 (the year of tax monitoring 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 NCC 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 NCC 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.
In December 2017 the tax authority decided to conduct a tax monitoring of NCC in 2018.

As at December 31, 2017 management believes that its interpretation of the relevant legislation is appropriate and that NCC's tax, currency and customs positions will be sustained.

(in thousands of Russian rubles, unless otherwise indicated)

21. Transactions with related parties

Control relationships. As at December 31, 2017 and 2016, NCC is a wholly owned subsidiary of Moscow Exchange. Russian Federation exercized significant influence over Moscow Exchange.

The statement of comprehensive income as of December 31, 2017 and December 31, 2016 includes the following amounts with related parties:

	Year ended December 31, 2017		Year ended December 31, 2016	
	Parent	**Other related parties**	**Parent**	**Other related parties**
Interest expense	(316 607)	(27 422)	(334 212)	(140 832)
Comission income (recoverable expenses)	4 866	(35 230)	2 024	10 147
Net loss on foreign exchange operations	-	(263 093)	-	(105 797)
Administrative and other operating expenses	(320 912)	(149 599)	(321 281)	(157 775)

The statement of financial position as of December 31, 2017 and December 31, 2016 includes the following amounts with related parties:

	December 31, 2017		December 31, 2016	
	Parent	**Other related parties**	**Parent**	**Other related parties**
Cash and cash equivalents	-	80 411 329	-	62 434 219
Property and equipment and intangible assets	1 634	-	-	-
Property and equipment and intangible assets	891	1	981	-
Other liabilities	(28 080)	(28 086)	(27 304)	(22 166)

As at December 31, 2017 operating lease commitments with Group participants amounted to RUB 36 183 thousand (31 December 2016: RUB 30 949 thousand).

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, and share-based payment expense.

Included in the Statement of Financial Position are the following amounts that arose on transactions with key management personnel:

	Year ended December 31, 2017	**Year ended December 31, 2016**
Other liabilities (unaudited)	19 303	18 191
Payments based on the shares of the parent company	29 178	44 685

Included in the Statement of Comprehensive Income are the following amounts that arose due to transactions with key management personnel:

	Year ended December 31, 2017	**Year ended December 31, 2016**
Short-term employee benefits, except for share-based payments (unaudited)	119 814	139 292
Long-term employee benefits (unaudited)	19 297	22 870
Share-based payment expense	20 052	19 044
Total remuneration of key management personnel (unaudited)	**159 163**	**181 206**

(in thousands of Russian rubles, unless otherwise indicated)

21. Transactions with related parties (continued)

Transactions with government-related entities. In the ordinary course of business NCC provides trading, clearing and depositary services to government-related entities, places funds with government-related banks and bonds issued by the Russian Federation and government-related entities. According to p.26 (b) of IAS 24 NCC discloses the following significant outstanding balances and financial results on operations with government-related entities As at December 31, 2017 and 2016 and for the years ended December 31, 2017 and December 31, 2016:

	December 31, 2017	December 31, 2016
Assets		
Cash and cash equivalents	148 619 613	111 450 275
Due from banks and other financial institutions	1 179 486	8 244 878
Financial assets available-for-sale	140 214 843	163 002 031
Other assets	3 371	85
Liabilities		
Customer accounts	181 403 326	202 318 118
Other liabilities	573	62

As at December 31, 2017 operations with government-related entities within central counterparty financial assets and liabilities amounted to 11,4% of total balance. (December 31, 2016: 7,8%).

	Year ended December 31, 2016	Year ended December 31, 2015
Fee and commission income	2 217 548	1 651 962
Interest income	9 360 793	14 334 478
Interest expense	(687 653)	(60 844)
Net gain on financial assets available-for-sale	706 011	986 107
Administrative and other operating expenses	(2 338)	(1 845)

22. Fair value measurements

NCC 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.

(in thousands of Russian rubles, unless otherwise indicated)

22. Fair value measurements (continued)

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

	December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Derivatives recognized at fair value though profit or loss (assets)	-	413 618	-	413 618
Central counterparty financial assets and liabilities (foreign currency operations)	1 966 820	-	-	1 966 820
Investments available-for-sale	181 422 947	15 473 024	1 701	196 897 672
Derivatives recognized at fair value though profit or loss (liabilities)	-	6 278	-	6 278

Transfers between level 1 and 2

	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

NCC considers that the fair value of all financial assets and liabilities approximates their carrying value.

The fair value of “Cash and cash equivalents”, “Due from banks and other financial institutions”, “Other financial assets”, “Customer accounts” and “Other financial liabilities” as of December 31, 2017 and 31 December 2016 refer to level 2 hierarchy of fair value.

There were no changes in fair value estimates for Level 3 of the fair value hierarchy during 2017 and 2016 year.

For assets and liabilities that are recognised at fair value on a recurring basis, NCC 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, 2017	**Year ended December 31, 2016**
From Level 1 to Level 2		
Investments avaliable-for-sale	3 178 351	5 916 480
From Level 2 to Level 1		
Investments avaliable-for-sale	898 401	114 944

(in thousands of Russian rubles, unless otherwise indicated)

23. Capital management

NCC 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 NCC'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, NCC adjusts its capital structure by dividend payments, additional issue of shares or repurchase of shares from active shareholders.

NCC's general policy with respect the risks associated with capital management has not changed compared to 2016.

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 December 31, 2017 his minimum level was 8% (December 31, 2016: 8%). NCC was in compliance with the statutory capital ratio in 2017 and 2016.

	December 31, 2017	**December 31, 2016**
Equity	45 903 533	46 515 470
Risk weighted assets	249 218 378	240 107 296
Capital adequacy ratio (N1)	**18,4%**	**19,4%**
Statutory ratio of capital adequacy	8%	8%

From the assignment of status of non-banking credit organisation (November 28, 2017) NCC daily calculates rations according to Instruction of Bank of Russia №175-I as of November 14, 2016.

Capital adequacy ratio of central counterparty (N1cc) was 160.2% with a minimum permissible level of ≥100%.

24. Risk management policies

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

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

The key objectives of NCC are financial system risks reduction and ensuring stability of the financial and commodity markets where NCC operates. For these purposes NCC 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 NCC. This integrated approach to RMS organization is based on a single holistic unit responsible for the RMS in NCC 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 NCC 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.

24. Risk management policies (continued)

The most recent risks' identification procedure revealed NCC 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 NCC are credit, market, liquidity and operational risks. Significant risks stress-tested by NCC 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 NCC 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 NCC's development strategy.

Key objectives of NCC'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 NCC through implementation of more precise risk measures;
- Maintain stability during the introduction of new complex products and services.

NCC 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. NCC 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 NCC constantly monitors the concentration of credit risk in compliance with applicable prudential requirements.

To reduce credit risk NCC applies specific requirements to financial conditions of its counterparties and to the types and quality of collateral accepted by NCC. 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 NCC can apply discounts to collateral accepted.

One of the major risks of NCC is exposed to within its centralized clearing activity is the CCP credit risk. To mitigate credit risk from its CCP activities NCC 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 NCC has formed Dedicated capital as an additional defence level in its waterfall to limit its liabilities in case of a counterparty default. Moreover NCC has updated 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 procedure.

(in thousands of Russian rubles, unless otherwise indicated)

24. Risk management policies (continued)

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

Credit risks are not significant for NCC's activities as NCC does not issue loans and guarantees, settlement documents of customers are executed only if the customers have positive balance of accounts with NCC, 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 National Settlement Depository ("NSD") of RUB 80 411 329 thousand (December 31, 2016: RUB 62 434 387 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 December 31, 2017, NSD had AA- rating (December 31, 2016: AA-) which corresponds to the low risk level.

As at December 31, 2017 and 2016, balances with the CBR classified at the sovereign credit rating level of the Russian Federation.

Tables below do not include amounts relating to accounts in precious metals. The following tables detail the credit ratings of financial assets held by NCC as at December 31, 2017 and 2016:

	AA	A	BBB	less BBB-	Not rated	December 31, 2017 Total
FINANCIAL ASSETS:						
Cash equivalents	33 425 139	29 680 846	49 096 084	113 750 169	80 544 843	**306 497 081**
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	6 010 627	-	**6 010 627**
Financial assets at fair value though profit or loss	404 316	-	-	-	9 302	**413 618**
Due from financial institutions	-	-	1 179 486	46 935 227	-	**48 114 713**
Central counterparty financial assets	-	59 565	2 359 285	2 042 773 846	384 891 051	**2 430 083 747**
Investments available-for-sale	-	-	14 840 087	182 055 884	-	**196 895 971**
Other financial assets	-	-	2 461	22	95 127	**97 610**

	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 the 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	1 223 536	**205 637 671**
Other financial assets	-	-	1 143	96 851	110 875	**208 869**

NCC 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, 2017 Total
Financial assets				
Cash and cash equivalents	127 737 613	178 512 284	249 929	306 499 826
Mandatory cash balances with the Central Bank of the Russian Federation	6 010 627	-	-	6 010 627
Derivatives recognized at fair value though profit or loss	9 302	404 316	-	413 618
Due from financial institutions	46 935 227	1 179 486	-	48 114 713
Central counterparty financial assets	2 430 083 747	-	-	2 430 083 747
Investments available-for-sale	153 366 735	43 530 937	-	196 897 672
Other financial assets	97 610	-	-	97 610
Total financial assets	**2 764 240 861**	**223 627 023**	**249 929**	**2 988 117 813**
Financial liabilities				
Customer accounts	499 104 663	1 307 670	940 443	501 352 776
Derivatives recognized at fair value though profit or loss	6 278	-	-	6 278
Central counterparty financial liabilities	2 430 083 747	-	-	2 430 083 747
Other financial liabilities	350 605	26 815	-	377 420
Total financial liabilities	**2 929 545 293**	**1 334 485**	**940 443**	**2 931 820 221**

	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 the 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**

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.

(in thousands of Russian rubles, unless otherwise indicated)

24. Risk management policies (continued)

With regard to the activities of a central counterparty NCC 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.

NCC'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 NCC 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 NCC, assesses the sensitivity of the impact of interest rate risk on portfolio fair value and income.

As the majority of NCC'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 (December 31, 2016: 150 bp) which is in line with the Management's expectations with regard to a reasonably possible change in interest rates.

	December 31, 2017		**December 31, 2016**	
	Net profit	**Equity**	**Net profit**	**Equity**
150 bp parallel rise	-	(7 720 324)	-	(3 939 635)
150 bp parallel decrease	-	7 519 755	-	3 687 179

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 NCC 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. NCC 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 the Bank of Russia.

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

(in thousands of Russian rubles, unless otherwise indicated)

24. Risk management policies (continued)

NCC's exposure to currency risk is as follows:

	RUB	USD	EUR	Other currencies	December 31, 2017 Total
Financial assets					
Cash and cash equivalents	103 958 756	47 449 527	127 993 366	27 098 177	306 499 826
Mandatory cash balances with the Central Bank of the Russian Federation	6 010 627	-	-	-	6 010 627
Due from financial institutions	34 886	46 900 341	-	1 179 486	48 114 713
Central counterparty financial assets	2 029 680 090	382 205 276	18 198 381	-	2 430 083 747
Investments available-for-sale	105 241 940	60 927 741	30 727 991	-	196 897 672
Other financial assets	97 607	-	-	3	97 610
Total financial assets	**2 245 023 906**	**537 482 885**	**176 919 738**	**28 277 666**	**2 987 704 195**
Financial liabilities					
Customer accounts	154 740 525	140 325 600	179 231 338	27 055 313	501 352 776
Central counterparty financial liabilities	2 029 680 090	382 205 276	18 198 381	-	2 430 083 747
Other financial liabilities	350 596	1 157	25 506	161	377 420
Total financial liabilities	**2 184 771 211**	**522 532 033**	**197 455 225**	**27 055 474**	**2 931 813 943**
Derivatives	(4 379 416)	(15 879 497)	21 890 041	(1 223 788)	407 340
Open position	**55 873 279**	**(928 645)**	**1 354 554**	**(1 596)**	

The table below shows the analysis of derivatives of NCC as at December 31, 2017:

	Fair value of principal amount or agreed amount		Assets - positive fair value	Liabilities - negative fair value
	Receivables	Payables		
Currency swaps	26 308 463	(25 901 123)	413 618	(6 278)

(in thousands of Russian rubles, unless otherwise indicated)

24. Risk management policies (continued)

	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 the 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)**	

Currency risk sensitivity. The following table details NCC's sensitivity to a 6% for USD and 16% for EURO (December 31, 2016: 23%) increase and decrease in the Russian ruble exchange rate against relevant foreign currencies. The sensitivity rate represents NCC’s assessment of the reasonably possible change in foreign exchange rates.

	December 31, 2017		December 31, 2016	
	USD	**EUR**	**USD**	**EUR**
	6%	**16%**	**23%**	**23%**
Ruble appreciation	44 575	(173 383)	(26 984)	(40 378)
Ruble depreciation	(44 575)	173 383	26 984	40 378

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.

Sensitivity analyses do not take into consideration that NCC's assets and liabilities are actively managed. Additionally, NCC's financial position may vary depending on changes in the market. For example, NCC'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 NCC'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.

24. Risk management policies (continued)

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 NCC.

The main purpose of liquidity management is to ensure NCC'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.

NCC'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)

An analysis of liquidity risk is presented in the following table. The presentation below is based on information provided to NCC's key management. As at December 31, 2017 and 2016, 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	More 5 years	Maturity undefined	December 31, 2017 Total
Financial assets							
Cash and cash equivalents	306 499 826	-	-	-	-	-	306 499 826
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	-	6 010 627	6 010 627
Derivatives recognized at fair value though profit or loss	413 618	-	-	-	-	-	413 618
Due from financial institutions	1 179 515	31 080 418	15 854 780	-	-	-	48 114 713
Central counterparty financial assets	2 110 096 016	103 121 695	216 866 036	-	-	-	2 430 083 747
Investments available-for-sale	177 983 540	-	14 169 087	4 020 920	722 424	1 701	196 897 672
Other financial assets	97 610	-	-	-	-	-	97 610
Total financial assets	**2 596 270 125**	**134 202 113**	**246 889 903**	**4 020 920**	**722 424**	**6 012 328**	**2 988 117 813**
Financial liabilities							
Customer accounts	501 352 776	-	-	-	-	-	501 352 776
Derivatives recognized at fair value though profit or loss	6 278	-	-	-	-	-	6 278
Central counterparty financial liabilities	2 110 096 016	103 121 695	216 866 036	-	-	-	2 430 083 747
Other financial liabilities	245 977	48 320	51 964	31 159	-	-	377 420
Total financial liabilities	**2 611 701 047**	**103 170 015**	**216 918 000**	**31 159**	**-**	**-**	**2 931 820 221**
Liquidity gap	**(15 430 922)**	**31 032 098**	**29 971 903**	**3 989 761**	**722 424**	**6 012 328**	
Cumulative liquidity gap	**(15 430 922)**	**15 601 176**	**45 573 079**	**49 562 840**	**50 285 264**	**56 297 592**	

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More 5 years	Maturity undefined	December 31, 2016 Total
Financial assets							
Cash and cash equivalents	375 102 062	-	-	-	-	-	375 102 062
Mandatory cash balances with the 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**	

Undiscounted cash flows on financial liabilities are approximately equal to cash flows presented in the analysis of liquidity risk above.

24. Risk management policies (continued)

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 NCC'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 NCC.

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.

Compliance risk. Compliance risk is the risk of losses resulting from NCC 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 NCC 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.

(in thousands of Russian rubles, unless otherwise indicated)

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 NCC 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 NCC 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. Similar rules apply to the corresponding income and expenses.

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:

	December 31, 2017			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)	46 935 227	-	46 935 227	(46 935 227)	-	-
Central counterparty financial assets (repo transactions)	2 428 116 928	-	2 428 116 928	(2 428 116 928)	-	-
Central counterparty financial assets (currency transactions)	3 234 320	(1 267 500)	1 966 820	-	(1 966 820)	-
Total financial assets	**2 478 286 475**	**(1 267 500)**	**2 477 018 975**	**(2 475 052 155)**	**(1 966 820)**	**-**
Financial liabilities						
Central counterparty financial liabilities (repo transactions)	-	(2 428 116 928)	(2 428 116 928)	2 428 116 928	-	-
Central counterparty financial liabilities (currency transactions)	984 700	(2 951 500)	(1 966 800)	-	-	(1 966 800)
Margin account		(384 647)	(384 647)	-	-	(384 647)
Total financial liabilities	**984 700**	**(2 431 453 075)**	**(2 430 468 375)**	**2 428 116 928**	**-**	**(2 351 447)**

	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)	-	-
Central counterparty financial assets (repo transactions)	1 730 377 026	-	1 730 377 026	(1 730 377 026)	-	-
Central counterparty 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						
Central counterparty financial liabilities (repo transactions)	-	(1 730 377 026)	(1 730 377 026)	1 730 377 026	-	-
Central counterparty 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)**

26. Subsequent events

Subsequent events disclosed in Note 20.

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