

Central Counterparty National Clearing Centre

Financial Statements
For the Year Ended
December 31, 2020

Central Counterparty National Clearing Centre

Contents

Page

| | |
|---|----|
| Independent auditor's report..... | 3 |
| Statement of Comprehensive Income | 7 |
| Statement of Financial Position..... | 8 |
| Statement of Cash Flows | 9 |
| Statement of Changes in Equity | 11 |

Notes to the Financial Statements

| | |
|--|----|
| 1. Organization..... | 12 |
| 2. Basis of preparation | 13 |
| 3. Significant accounting policies..... | 13 |
| 4. Critical accounting judgments and key sources of estimation uncertainty | 25 |
| 5. Interest income and expense..... | 27 |
| 6. Fee and commission income | 27 |
| 7. Net gain on financial assets at fair value through other comprehensive income | 28 |
| 8. Foreign exchange gains less losses..... | 28 |
| 9. Other operating income..... | 28 |
| 10. Personnel expenses | 29 |
| 11. Administrative and other operating expenses | 30 |
| 12. Movement in allowance for expected credit losses | 30 |
| 13. Other expenses | 32 |
| 14. Income tax expense..... | 33 |
| 15. Cash and cash equivalents..... | 35 |
| 16. Financial assets and liabilities at fair value through profit or loss | 35 |
| 17. Due from banks and other financial institutions | 36 |
| 18. Financial assets and liabilities of central counterparty..... | 36 |
| 19. Financial assets at fair value through other comprehensive income | 36 |
| 20. Property, equipment and intangible assets | 37 |
| 21. Other assets..... | 38 |
| 22. Customer accounts | 38 |
| 23. Overnight bank loans | 39 |
| 24. Other liabilities | 39 |
| 25. Share capital and paid-in capital..... | 40 |
| 26. Commitments and contingencies..... | 41 |
| 27. Transactions with related parties..... | 42 |
| 28. Fair value measurements | 44 |
| 29. Capital management | 45 |
| 30. Risk management policies | 45 |
| 31. Offsetting of financial instruments..... | 55 |

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, 2020 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, 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, 2020, and its financial performance and its cash flows for the year then ended 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* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

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

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

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

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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.

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 December 2, 1990 (the “Federal Law”) in the course of our audit of the Organization's annual financial statements for 2020 we performed procedures with respect to the Organization's compliance with the obligatory ratios as at January 1, 2021 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, 2021 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 financial statements of the Organization present fairly, in all material respects, the financial position of the Organization as at December 31, 2020 its financial performance and its cash flows for 2020 in accordance with International Financial Reporting Standards and Russian accounting 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, 2020 the Organization's internal audit service 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 departments and internal audit service comply with qualification requirements established by the CBRF;

- (b) as at December 31, 2020, 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, 2020, 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 departments and internal audit service in 2020 on management of credit, operating, market, interest rate, legal, liquidity and reputational risks were in compliance with the Organization's internal policies; these reports included results of monitoring by the Organization's risk management departments and internal audit service of effectiveness of the Organization's respective methodologies and improvement recommendations;
- (e) as at December 31, 2020, 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 2020 the Organization's Supervisory Board and the Organization's executive bodies have regularly discussed reports prepared by the risk management departments and internal audit service 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.

Shvetsov Andrei Viktorovich

Engagement partner

March 18, 2021



The Entity: Central Counterparty National Clearing Centre

General Banking License № 3466-CC, issued by the Central Bank of Russian Federation by 16.04.2019

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 of Moscow.

Address: 125009, Moscow, Bolshoy Kislovsky per. 13

Audit Firm: AO "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-regulatory organization of auditors Association "Sodruzhestvo", ORNZ 12006020384.


Central Counterparty National Clearing Centre
Statement of Comprehensive Income
(in thousands of Russian rubles)

| | Notes | Year ended December 31, 2020 | Year ended December 31, 2019 |
|--|-------|---------------------------------|---------------------------------|
| Interest income | 5 | 13 696 484 | 11 941 066 |
| Interest expense | 5 | (2 148 548) | (2 940 099) |
| Net interest income | | 11 547 936 | 9 000 967 |
| Fee and commission income | 6 | 12 990 736 | 9 489 044 |
| Net gain on financial assets at fair value through profit or loss | | 51 535 | 144 534 |
| Net gain on financial assets at fair value through other comprehensive income | 7 | 913 191 | 1 463 212 |
| Foreign exchange gains less losses | 8 | (1 700 044) | 3 222 479 |
| Other operating income | 9 | 30 226 | 899 269 |
| Operating income | | 23 833 580 | 24 219 505 |
| Personnel expenses | 10 | (1 049 616) | (723 837) |
| Administrative and other operating expenses | 11 | (849 014) | (844 908) |
| Other expense | 13 | (46 811) | (2 329 902) |
| Profit before tax | | 21 888 139 | 20 320 858 |
| Income tax expense | 14 | (4 499 450) | (3 901 149) |
| Net profit | | 17 388 689 | 16 419 709 |
| Other comprehensive income / (loss) that may be reclassified subsequently to profit or loss | | | |
| Movement in investment revaluation reserve for financial assets at fair value through other comprehensive income | | 893 639 | 5 441 828 |
| Movement in revaluation reserve associated with changes in expected credit losses on financial assets at fair value through other comprehensive income | 12 | 39 762 | 13 727 |
| Net gain on investments at fair value through other comprehensive income reclassified to profit or loss | | (913 191) | (1 463 212) |
| Deferred income tax | 14 | (4 042) | (798 469) |
| Other comprehensive gain that may be reclassified subsequently to profit or loss | | 16 168 | 3 193 874 |
| Total comprehensive income | | 17 404 857 | 19 613 583 |


Chairman of the Executive Board
Astanin Eddi Vladimirovich

March 18, 2021
Moscow




Chief Accounting Officer
Gorina Marianna Petrovna

March 18, 2021
Moscow

Notes 1-31 form an integral part of these Financial Statements.

Central Counterparty National Clearing Centre
Statement of Financial Position
(in thousands of Russian rubles)

| | Notes | December 31, 2020 | December 31, 2019 |
|---|-------|----------------------|----------------------|
| ASSETS | | | |
| Cash and cash equivalents | 15 | 622 060 980 | 525 471 871 |
| Financial assets at fair value through profit or loss | 16 | 18 318 893 | 13 472 611 |
| Due from banks and other financial institutions | 17 | 145 428 057 | 52 634 587 |
| Financial assets of central counterparty | 18 | 4 050 837 636 | 3 262 670 622 |
| Financial assets at fair value through other comprehensive income | 19 | 171 277 472 | 145 050 758 |
| Property and equipment and intangible assets | 20 | 648 821 | 614 806 |
| Deferred tax assets | 14 | - | 1 582 914 |
| Current income tax assets | | - | 923 562 |
| Other assets | 21 | 600 421 | 3 383 429 |
| Total assets | | 5 009 172 280 | 4 005 805 160 |
| LIABILITIES | | | |
| Customer accounts | 22 | 872 149 349 | 619 267 584 |
| Overnight bank loans | 23 | - | 49 229 140 |
| Derivatives recognized at fair value through profit and loss | 16 | 664 180 | 32 831 |
| Financial liabilities of central counterparty | 18 | 4 050 837 636 | 3 262 670 622 |
| Deferred tax liabilities | 14 | 125 984 | - |
| Current income tax liabilities | | 1 808 860 | 451 395 |
| Other liabilities | 24 | 8 849 753 | 928 690 |
| Total liabilities | | 4 934 435 762 | 3 932 580 262 |
| EQUITY | | | |
| Share capital | 25 | 16 670 000 | 16 670 000 |
| Paid-in capital | 25 | 347 144 | 347 144 |
| Investments revaluation reserve | | 1 476 895 | 1 460 727 |
| Payments based on the shares of the parent company | | 29 178 | 65 472 |
| Retained earnings | | 56 213 301 | 54 681 555 |
| Total equity | | 74 736 518 | 73 224 898 |
| Total liabilities and equity | | 5 009 172 280 | 4 005 805 160 |

Notes 1-31 form an integral part of these Financial Statements.

Central Counterparty National Clearing Centre

Statement of Cash Flows

(in thousands of Russian rubles)

| | Notes | Year ended December 31, 2020 | Year ended December 31, 2019 |
|--|-------|---------------------------------|---------------------------------|
| Cash flows from / (used in) operating activities: | | | |
| Profit before tax | | 21 888 139 | 20 320 858 |
| Adjustments for: | | | |
| Gain on disposal of financial assets at FVTOCI | | (913 191) | (1 463 212) |
| Revaluation of derivatives | 16 | 680 142 | 880 773 |
| Change in interest accruals, net | | 2 778 705 | 2 658 117 |
| Net change in deferred commission income | | - | (250 340) |
| Unrealized (gain) / loss on foreign exchange operations | | 17 582 | (1 251 626) |
| Depreciation and amortization charge | 11 | 147 560 | 117 265 |
| Payments based on the shares of the parent company | 10 | 45 097 | 24 109 |
| Change in allowance for expected credit losses | 12 | 46 811 | 2 298 242 |
| Change in other provisions | 9,13 | (17 245) | (841 380) |
| Net gains on disposal of property and equipment and intangible assets | | (35) | - |
| Cash flows from operating activities before changes in operating assets and liabilities | | 24 673 565 | 22 492 806 |
| Changes in operating assets and liabilities: | | | |
| Financial assets at fair value through profit or loss | | (2 556 494) | (10 659 244) |
| Due from banks and other financial institutions | | (71 835 852) | 23 344 052 |
| Financial assets of central counterparty | | (787 758 214) | 47 208 052 |
| Other assets | | 2 573 555 | (1 244 183) |
| Customer accounts | | 152 673 968 | 61 511 392 |
| Overnight bank loans | | (50 495 857) | 44 223 792 |
| Financial liabilities of central counterparty | | 787 758 214 | (49 544 193) |
| Other liabilities | | 165 237 | 6 864 |
| Net cash flows from operating activities before income tax | | 55 198 122 | 137 339 338 |
| Income tax paid | | (513 567) | (7 353 706) |
| Cash flows from operating activities | | 54 684 555 | 129 985 632 |
| Cash flows from / (used in) investing activities: | | | |
| Purchase of financial assets at fair value through other comprehensive income | | (141 898 883) | (94 694 393) |
| Sale of financial assets at fair value through other comprehensive income | | 129 361 997 | 139 672 609 |
| Purchase of property and equipment and intangible assets | | (118 341) | (160 725) |
| Proceeds from disposal of property and equipment and intangible assets | | 35 | - |
| Net cash flows (used in) / from investing activities | | (12 655 192) | 44 817 491 |

Notes 1-31 form an integral part of these Financial Statements.

Central Counterparty National Clearing Centre

Statement of Cash Flows (continued)

(in thousands of Russian rubles)

| | Notes | Year ended December 31, 2020 | Year ended December 31, 2019 |
|--|-------|---------------------------------|---------------------------------|
| Cash flows used in financing activities: | | | |
| Dividends paid | | (8 149 963) | (11 399 780) |
| Cash outflow for lease liabilities | 24 | (29 509) | (19 230) |
| Net cash flows used in financing activities | | (8 179 472) | (11 419 010) |
| Effect of changes in foreign exchange rates on cash and cash equivalents | | | |
| | | 62 737 660 | (57 881 003) |
| Net increase in cash and cash equivalents | | 96 587 551 | 105 503 110 |
| Cash and cash equivalents, beginning of the period | | | |
| | 15 | 525 473 603 | 419 970 493 |
| Cash and cash equivalents, end of the period | | | |
| | 15 | 622 061 154 | 525 473 603 |

Interest received and paid for the year ended December 31, 2020 amounted to RUB 16 482 890 thousand and RUB 2 156 249 thousand respectively.

Interest received and paid for the year ended December 31, 2019 amounted to RUB 14 594 894 thousand and RUB 2 935 810 thousand, respectively.

Notes 1-31 form an integral part of these Financial Statements.

Central Counterparty National Clearing Centre
Statement of Changes in Equity
(in thousands of Russian rubles)

| | Share capital | Paid-in capital | Investments revaluation reserve | Payments based on the shares of the parent | Retained earnings | Total equity |
|--|-------------------|-----------------|------------------------------------|--|---------------------|---------------------|
| December 31, 2018 | 16 670 000 | 347 144 | (1 733 147) | 41 363 | 49 661 626 | 64 986 986 |
| Comprehensive income for the period | - | - | 3 193 874 | - | 16 419 709 | 19 613 583 |
| Transactions with owners | | | | | | |
| Dividends declared | - | - | - | - | (11 399 780) | (11 399 780) |
| Payments based on the shares of the parent company | - | - | - | 24 109 | - | 24 109 |
| Total transactions with owners | - | - | - | 24 109 | (11 399 780) | (11 375 671) |
| December 31, 2019 | 16 670 000 | 347 144 | 1 460 727 | 65 472 | 54 681 555 | 73 224 898 |
| Comprehensive income for the period | - | - | 16 168 | - | 17 388 689 | 17 404 857 |
| Transactions with owners | | | | | | |
| Dividends declared | - | - | - | - | (15 909 015) | (15 909 015) |
| Payments based on the shares of the parent company | - | - | - | (36 294) | 52 072 | 15 778 |
| Total transactions with owners | - | - | - | (36 294) | (15 856 943) | (15 893 237) |
| December 31, 2020 | 16 670 000 | 347 144 | 1 476 895 | 29 178 | 56 213 301 | 74 736 518 |

Notes 1-31 form an integral part of these Financial Statements.

Central Counterparty National Clearing Centre

Notes to the Financial Statements

(in thousands of Russian rubles, unless otherwise indicated)

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.

NCC is a member of Moscow Exchange Group ("Group") and as at December 31, 2020 and December 31, 2019 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.

Operating environment. The Russian economy continued to be negatively impacted by continuing international sanctions imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. The above mentioned events have led to reduced access of the Russian businesses to international capital markets, hampered economic growth and created other negative economic consequences.

Because Russia produces and exports large volumes of oil and gas, its current account and fiscal balance are particularly sensitive to the price of oil and gas on the world market. The slowdown in the global economy, an increase in oil supply on the world market against a decline in its consumption during 2020 led to a decrease in oil prices, which resulted in weakening of Russian Ruble against major currencies.

In addition to that, starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational and financial disruption for many companies and have significant impact on global economy and global financial markets.

The effect of the pandemic on the NCC's business largely depends on future developments, which are uncertain and cannot be reliably predicted, including the duration of the pandemic and the impact of new coronavirus spread prevention measures on the world and Russian economy.

NCC has adapted to mentioned events. To ensure the health of employees and maintain uninterrupted operation, a significant part of NCC's staff is transferred to remote work mode.

NCC has evaluated the potential short-term and long-term implications of COVID-19 and actions taken in response to the pandemic on its financial statements and on the capital and liquidity position. This evaluation included stress-tests adjusted on potential COVID-19 effect on market volatility.

NCC in order to control the sufficiency of resources for covering losses in the case of stressful but possible events performed the following analysis:

- Direct and reverse stress testing. In this scenario, stress tests took into account the historical data of stock exchange trading over the past 10 years;
- Analysis of the sensitivity of stress testing results to changes in risk factors;
- Modeling NCC's liquidity position under stressful conditions;
- Analysis of the validity of the applied parameters of stress scenarios.

Testing was carried out under two scenarios, that corresponded to the approved changes in risk factors, for the following areas of NCC's activity:

- Central counterparty's activity – The potential losses of the two largest clearing participants and the adequacy of the Central counterparty's protection levels to cover them (the coefficients of the CRf and CR) were determined.
- Investment activity – Potential losses in case of default of the two largest counterparties, potential revaluation of the portfolio, potential increase in reserves and were determined.
- Combined scenario (Central counterparty's activity and investment activity) – Total scenario losses of the largest counterparties, their impact on the H1цк ratio and liquidity ratios were determined.

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

1. Organization (continued)

The analysis of the results of the above-mentioned procedures was carried out on the basis of the results of all activities as a whole as well as in the context of exchange markets and types of activities.

This analysis showed that NCC in the case of stressful but possible events maintains sufficient capital and other resources at an acceptable level in all these contexts, and no special emergency measures are required to ensure the continuity of the NCC's activities under stressful conditions.

Management currently believes that it has adequate capital and liquidity position to continue to operate the business and mitigate the risks associated with COVID-19 for the foreseeable future. NCC remains vigilant in monitoring day to day changes as the global situation evolves.

The Financial Statements approval. These Financial Statements of NCC were approved for issue by the Management on March 18, 2021.

2. Basis of preparation

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 preparation. 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 Russian ruble exchange rates applied in the preparation of these Interim Condensed Financial Statements are presented below:

| | December 31, 2020 | December 31, 2019 |
|-----|-------------------|-------------------|
| USD | 73,8757 | 61,9057 |
| EUR | 90,6824 | 69,3406 |

3. Significant accounting policies

The accounting policies adopted by NCC in the preparation of these Financial Statements are consistent with those followed in the preparation of NCC's Financial Statements for the year ended December 31, 2019.

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, 2020:

- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IFRS 3 *Definition of business*
- Amendments to IAS 1 and IAS 8 *Definition to Material*
- Amendments to IFRS 9, IAS 39 and IFRS 7 *Basic interest rate reform*
- Amendments to IFRS 16 *Covid-19-Related Rent Concessions*

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.

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

3. Significant accounting policies (continued)

Cash and cash equivalents. Cash and cash equivalents in the Statement of Financial Position include cash on hand, unrestricted balances on correspondent and deposit accounts with banks with maturity up to one business day. 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 for the purpose of statement of cash flows.

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 are recognized in the statement of financial position at the net fair value based on daily settlement prices, except for assets and liabilities under repo transactions, which are measured at amortized cost.

Collateral provided by central counterparty. NCC guarantees settlement of transactions, in which NCC acts as central counterparty,. NCC as central counterparty applies a multi-level collateral system. The key component of this approach is daily determination of the overall risk per trading/clearing participant (margin) that should be covered by collateral in the form of cash, securities or commodities (individual clearing collateral or other collateral).

In addition to such collateral, trading/clearing participants are required to make contributions to guarantee funds as described in Note 30.

Financial assets. All financial assets are measured at fair value at initial recognition, including transaction costs, except for those financial assets classified as at fair value through profit or loss (further – FVTPL). Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

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

- Financial assets should be measured at amortised cost if both of the following criteria are met:
 - a. Financial asset is held within a business model with the objective to collect the contractual cash flows, and
 - b. The contractual cash flows of financial asset are solely payments of principal and interest on the principal amount outstanding (SPPI);
- Financial assets should be measured at fair value through other comprehensive income (FVTOCI) if both of the following criteria are met:
 - a. Financial asset is held within a business model with the objective both to collect the contractual cash flows and to sell the financial assets and
 - b. The contractual cash flows of financial assets are SPPI;
- All other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

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

NCC has several business models for managing its financial instruments that reflect how NCC manages its financial assets in order to generate cash flows. NCC's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

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

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

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

3. Significant accounting policies (continued)

At initial recognition of a financial asset, NCC determines whether newly recognised financial asset is part of an existing business model or whether it reflects the commencement of a new business model, if the asset does not match the existing business models. NCC reassesses its business models every reporting period to determine whether they have changed or not since the preceding period. For the current reporting period, NCC has not identified a change in its business models.

Debt instruments at amortised cost or at FVTOCI. NCC assesses the classification and measurement of a financial asset based on contractual cash flow characteristics of the asset and NCC's business model for managing the asset.

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

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

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

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

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

Financial assets at FVTPL are:

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

NCC does not designate assets at FVTPL using the fair value option.

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

Reclassifications. If the business model under which NCC holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day following the change in business model that results in reclassification NCC's financial assets. During the current financial year and previous accounting period there was no change in the business model under which NCC holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

Impairment. NCC recognises loss allowances for expected credit losses (ECLs) on the following financial instruments, not measured at FVTPL:

- Due from financial institutions;
- Cash and cash equivalents;
- Debt investment securities;
- Other financial assets subject to credit risk.

No loss allowances for expected credit losses are recognised on equity investments, financial assets arising from central counterparty (CCP) activity and intragroup transactions.

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

3. Significant accounting policies (continued)

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

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

Loss allowance for full lifetime ECL is required for a financial instrument if the credit risk attributable to that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL. More details on the determination of a significant increase in credit risk are provided below.

ECLs are a probability-weighted estimate of the present value of potential credit losses. ECLs are measured as the present value of the difference between the cash flows due to NCC under the contract and the cash flows that NCC expects to receive arising from the weighting of multiple future economic scenarios. NCC measures ECLs on an individual basis or on a collective basis for portfolios of debtors that share similar value and economic risk characteristics.

NCC does not form any loss allowance on ECLs for CCP activities. The CCP is acting as an intermediary between the parties: i.e. as a seller for each buyer and as a buyer for each seller, so that replacing their contractual relations between each other with relevant contracts with a central counterparty. CCP assets and liabilities are simultaneously reflected in NCC's statement of financial position due to the following:

- The net market value of those deals at the end of each day is equal to zero (if there are no defaulted market participants);
- There are no uncollateralised receivables in case all the obligations are duly fulfilled by the clearing participants.

The risks of non-fulfilment or improper fulfilment of clearing participants obligations on the CCP deals are managed using the following risk-management system measures, organised according to the federal law as at 07.02.2011 N^o7-FZ "On clearing, clearing activities and the central counterparty":

- Setting the requirements for individual and collective clearing collateral to mitigate expected losses in case of non-fulfilment or improper fulfilment of clearing participants obligations;
- Forming the CCP's guarantee fund – part of net assets designated according to the Clearing Rules to mitigate possible losses caused by non-fulfilment or improper fulfilment of clearing participants obligations;
- Conducting regular stress-tests of the CCP capital adequacy, including the control of statutory ratios calculation;
- Limitation of the CCP's liabilities.

NCC regularly analyses necessity of recognition of loss allowances for ECLs on financial assets of central counterparty. As at December 31, 2020 and December 31, 2019 based on results of carried analysis NCC concluded that such loss allowance for ECLs is not required.

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

NCC considers the following as constituting an event of default:

- The counterparty has gone bankrupt;
- A third party has filed a claim with the court to call the counterparty bankrupt and it has been accepted for hearing;
- The counterparty is permanently insolvent, i.e. has obligations to NCC that are past due for over 90 days; or
- The borrower's licence has been revoked by the CBR.

Significant increase in credit risk. NCC monitors all financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk NCC will measure the loss allowance based on lifetime ECL.

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

3. Significant accounting policies (continued)

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

When an asset becomes past due for up to 30 days, and not less than a half of the counterparty's credit ratings issued by international rating agencies declined or internal credit rating declined by 3 grades or more since initial recognition, NCC considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECLs.

Probability of default (PD). Multiple economic scenarios form the basis of determination of the probability of default at initial recognition and for the future. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

To determine PD NCC uses:

- Available data from international rating agencies;
- Internal ratings if the data mentioned above is unavailable.

NCC allocates its counterparties to a relevant internal rating depending on their credit quality based on quantitative and qualitative information. The historical PD is identified using a migration matrix, where internal ratings are mapped to the rating scales of international rating agencies for those counterparties that are not rated by international rating agencies.

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

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

- (a) Contractual cash flows after modification are no longer sppi;
- (b) Change in currency;
- (c) Change of counterparty;
- (d) The extent of change in interest rates;
- (e) Maturity.

If these do not clearly indicate a substantial modification, then quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is greater than 10% NCC deems the arrangement is substantially different leading to derecognition.

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

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, NCC determines whether the credit risk associated with the financial asset has increased significantly since initial recognition by comparing the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms with the remaining lifetime PD at the reporting date based on the modified terms.

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

3. Significant accounting policies (continued)

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

NCC derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If NCC neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, NCC recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If NCC retains substantially all the risks and rewards of ownership of a transferred financial asset, NCC continues to recognise the financial asset. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss. The cumulative gain/loss on equity investment designated as measured at FVTOCI, previously recognised in OCI is not subsequently reclassified to profit or loss.

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

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

Presentation of allowance for ECL in the statement of financial position. Loss allowances for ECL are presented in the statement of financial position as follows:

- For financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- For debt instruments measured at FVTOCI: no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve.

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

A financial liability is classified as held for trading if:

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

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

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with NCC's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

3. Significant accounting policies (continued)

- It forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire hybrid (combined) contract to be designated as at FVTPL.

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

Derecognition of financial liabilities. NCC derecognizes financial liabilities when, and only when, NCC's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

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

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

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

Useful lives of property and equipment. Depreciation is recognized so as to write off the cost or revalued amount of property and equipment less their residual value over their useful lives, using the straight-line method. The estimated useful lives, carrying amounts and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Depreciation rate used in 2020: 20%-48% (2019: 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 2020 were 10%-50% (2019: 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.

Lease, where NCC acts as lessee. NCC assesses whether a contract is or contains a lease, at inception of the contract. NCC recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with lease term of 12 months or less) and leases of low value assets. For these leases, NCC recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the incremental borrowing rate as the rate implicit in the lease cannot be readily determined.

The incremental borrowing rate is determined using the most recent CBR statistics on loan interest rates in the same currency and of the same term.

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

3. Significant accounting policies (continued)

The lease payments included in the measurement of the lease liability comprise:

- Fixed payments (including in-substance fixed payments), less any lease incentives;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is presented within other liabilities in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

NCC remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- There is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case the revised discount rate is used);
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The right-of-use asset. The right-of-use asset comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the obligation for costs to dismantle and remove a leased asset is incurred or an obligation to restore the site on which it is located or restore the underlying asset to the condition required by the terms of the lease, a provision is recognized and measured under IAS 37. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset.

If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that NCC expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented within the line property and equipment in the statement of financial position.

NCC applies IAS 36 *Impairment of Assets* to determine whether a right-of-use asset is impaired and to account for the impairment.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "general and administrative expenses" in the statement of comprehensive income.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. NCC has not used this practical expedient.

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

3. Significant accounting policies (continued)

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

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

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

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

Fee and commission income and expense. Fee and commission income and expense include fees other than those that are an integral part of EIR (see above). Revenue for services provided over a period is recognized pro rata over the contractual term and consists of commission income on operations with long-term exchange instruments, listing fees, depository fees, and other.

Fee and commission expenses with regards to services are accounted for as the services are received.

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.

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

3. Significant accounting policies (continued)

Payments based on the shares of the parent company. Group grants to some employees of NCC:

- The right to purchase equity instruments of Moscow Exchange on the terms settled in individual contracts, which gives 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. Such rights are accounted for as equity-settled share-based payments.
- The right to receive equity instruments of Moscow Exchange on the terms settled in individual contracts, which entitles employees to receive cash with the subsequent opportunity of purchase of Moscow Exchange ordinary shares. Such rights are accounted for as cash-settled share-based payments.

The cost of transactions based in the shares is recognised, together with a corresponding increase in equity (for equity-settled payments) / in liabilities (for cash-settled payments) 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. Loss or gain in the statement of comprehensive income for a period represents the movement in cumulative expense recognised as at the beginning and end of that period (Note 10).

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 foreign exchange gains less losses.

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 FVTOCI financial assets.

New or amended standards issued but not yet effective. NCC has not applied the following new and revised IFRSs that have been issued but are not yet effective:

| New or amended standard or interpretation | Effective date – for annual periods beginning on or after |
|--|--|
| IFRS 17 " <i>Insurance Contracts</i> " | January 1, 2023 |
| Amendments to IAS 1 " <i>Classification of Liabilities as Short-Term or Long-Term</i> " (as part of the project to formulate Annual Improvements to IFRS 2010-2012 cycles) | January 1, 2023 |
| Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 " <i>Interest Rate Benchmark Reform – Phase 2</i> " | January 1, 2021 |
| Amendments to IFRS 10 and IAS 28 " <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> " | Date to be determined by the IASB |
| Amendments to IAS 8 " <i>Definition of Accounting Estimates</i> " | January 1, 2023 |
| Amendments to IAS 1 and IFRS Practice Statement 2 " <i>Disclosure of Accounting Policies</i> " | January 1, 2023 |
| Annual Improvements to IFRS 2018-2020 cycles: | |
| Amendments to IFRS 3 " <i>Business combinations - Reference to the Conceptual Framework</i> " | January 1, 2022 |
| Amendments to IAS 16 " <i>Property and equipment - Proceeds before Intended Use</i> " | January 1, 2022 |
| Amendments to IAS 37 " <i>Provisions, contingent liabilities and contingent assets - Onerous Contracts – Cost of Fulfilling a Contract</i> " | January 1, 2022 |
| Amendments to IFRS 1, IFRS 9, IAS 41 and illustrative examples accompanying IFRS 16 " <i>Annual Improvements to IFRS</i> " | January 1, 2022 |

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

3. Significant accounting policies (continued)

IFRS 17 "Insurance Contracts". The new Standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 "Insurance Contracts".

The Standard outlines a General Model, which is modified for insurance contracts with direct participation features, described as the Variable Fee Approach. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.

The General Model will use current assumptions to estimate the amount, timing and uncertainty of future cashflows and it will explicitly measure the cost of that uncertainty, it takes into account market interest rates and the impact of policyholders' options and guarantees.

The Standard is effective for annual reporting periods beginning on or after January 1, 2023, with early application permitted (the official date of initial application was deferred to January 1, 2023, previously was on or after January 1, 2021). It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

The management of NCC does not expect that the application of the Standard in the future will have an impact on NCC's financial statements as NCC does not have instruments in scope of this standard.

Amendments to IAS 1 "Classification of Liabilities as Short-Term or Long-Term" (as part of the project to formulate Annual Improvements to IFRS 2010-2012 cycles). The amendments are intended to facilitate the understanding that a liability is classified as long-term if the organization expects and has the authority to refinance the liability or postpone its maturity by at least 12 months after the reporting period under the existing credit line with the previous lender, on equal or similar terms.

The amendments only amend the presentation of liabilities in the statement of financial position, i.e. not regarding the amount, the moment of recognition or disclosure of information.

The amendments clarify that the classification should be based on the existence at the end of the reporting period of the right to defer repayment of a liability for at least 12 months. Thus, the amendments explicitly indicate that only those rights that exist "at the end of the reporting period" should affect the classification of the liability. Moreover, the classification does not depend on expectations as to whether the organization will use the right to defer repayment of the liability, which means transferring funds, equity instruments, or other assets or services to a counterparty.

The amendments apply retrospectively to the periods beginning on or after January 1, 2023. Early application is acceptable.

The management of NCC does not expect that the application of the amendments in the future will have an impact on the NCC's financial statements.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform — Phase 2". The changes in Interest Rate Benchmark Reform — Phase 2 relate to the impact of the interest rate benchmark reform on the modification of financial assets, financial liabilities and lease liabilities, hedge accounting requirements, and disclosure requirements applying IFRS 7 to accompany the amendments regarding modifications and hedge accounting.

Modification of financial assets, financial liabilities and lease liabilities. The IASB introduces a practical expedient for changes in contractual cash flows as a direct consequence of the interest rate benchmark reform provided that the new cash flow basis is economically equivalent to the original basis. According to the practical exception these modifications are accounted prospectively for by updating the effective interest rate. All other modifications are accounted for using the current IFRS requirements. A similar practical expedient is proposed for lessee accounting applying IFRS 16.

Disclosures. The amendments require that an entity discloses additional information in order to allow users to understand the nature and extent of risks arising from the IBOR and how the entity manages those risks as well as the entity's progress in transitioning from IBORs to alternative benchmark rates, and how the entity is managing this transition.

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

3. Significant accounting policies (continued)

The amendments are effective for annual periods beginning on or after January 1, 2021 and are to be applied retrospectively, with early application permitted.

The management of NCC does not expect that the application of the amendments in the future will have an impact on the NCC's financial statements.

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 board; however, earlier application of the amendments is permitted.

The management of NCC does not expect that the application of the amendments in the future will have an impact on the NCC's financial statements.

Amendments to IAS 8 "Definition of Accounting Estimates". The changes to IAS 8 focus entirely on accounting estimates and clarify the following:

- The definition of a change in accounting estimates is replaced with a definition of accounting estimates.
- Entity develops accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty.
- The Board clarifies that a change in accounting estimate that results from new information or new developments is not the correction of an error.
- A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods.

The amendments are effective for annual periods beginning on or after January 1, 2023 and changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted.

The management of NCC does not expect that the application of the amendments in the future will have an impact on the NCC's financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2 "Disclosure of Accounting Policies". "Disclosure of Accounting Policies" (Amendments to IAS 1 and IFRS Practice Statement 2) amends IAS 1 in the following ways:

- An entity is now required to disclose its material accounting policy information instead of its significant accounting policies;
- Several paragraphs are added to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material;
- The amendments clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial;
- The amendments clarify that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements;
- And the amendments clarify that if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.

In addition, IFRS Practice Statement 2 has been amended by adding guidance and examples to explain and demonstrate the application of the 'four-step materiality process' to accounting policy information in order to support the amendments to IAS 1.

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

3. Significant accounting policies (continued)

The amendments to IAS 1 are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted. Once the entity applies the amendments to IAS 1, it is also permitted to apply the amendments to IFRS Practice Statement 2.

The management of NCC does not expect that the application of the amendments in the future will have an impact on the NCC's financial statements.

Annual Improvements to IFRS 2018-2020 Cycles. The list of amendments includes amendments to the three standards, as well as annual improvements to the Board, which are changes that clarify the wording or eliminate minor inconsistencies, omissions or contradictions between the requirements in the standards.

- **The amendments to IFRS 3** "Business Combinations" update the reference in IFRS 3 to the Conceptual Framework for Financial Statements without changing the accounting requirements for a business combination.
- **Amendments to IAS 16** "Property, Plant and Equipment" prohibit deducting from the value of property, plant and equipment the amounts received from the sale of manufactured goods while preparing the asset for its intended use. Instead, these sales revenue and related costs are recognized in profit or loss.
- **Amendments to IAS 37** "Provisions, Contingent Liabilities and Contingent Assets" determine the costs to be included in assessing whether the contract is unprofitable.
- Annual improvements introduce minor amendments to **IFRS 1** "First-time Adoption of International Financial Reporting Standards", **IFRS 9** "Financial Instruments", **IAS 41** "Agriculture" and illustrative examples accompanying **IFRS 16** "Leases".

All amendments are effective on January 1, 2022, early application is permitted.

The management of NCC does not expect that the application of the amendments in the future will have an impact on the NCC's financial statements.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of NCC's accounting policies the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements and critical estimates made by NCC in the process of applying the accounting policies were consistent with those disclosed in the annual Financial Statements for the year ended December 31, 2019, except for the following updates made to ECL estimation model:

- Refined approach to LGD (Loss Given Default) estimation:
 - Country creditworthiness is applied (in addition to the own creditworthiness of counterparties);
 - Adjustments in terms of counterparty types (scales for sovereign entities and systemically important institutions added).
- Refined approach to PD estimation:
 - Assessment horizons for bonds have been adjusted.
- Refined approach to EAD estimation:
 - Cash-flow valuation method adjusted in accordance with impairment stages;
 - Cash flows are now discounted using the effective interest rate (previously - risk free rate).
- Updated macro-adjustments calculation methodology:
 - Analysis of cycles based on dynamics of macroeconomic indices (GDP, consumer price index, money supply M1, industrial production index, processing industry index etc.) has been replaced with 1Y and 2Y Russian CDS quotes indicative of cyclical phase shift.

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

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

These updates in methodology itself (model effect) did not impact significantly the amount of the expected credit loss allowance. The major impact on provision amount is driven by shock in economic environment (specifically global oil market) that affected counterparties' probabilities of default (PD). Given the structure of financial assets subject to IFRS 9, the most severe effect in provisions due to market fluctuations showed financial assets at FVTOCI (Note 12).

Critical accounting judgements

Business model assessment. Classification and measurement of financial assets depends on the results of the SPPI and the business model test. NCC determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective (for more details refer to Note 3). NCC monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. NCC conducts assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change and so a prospective change to the classification of those assets.

Significant increase of credit risk. As explained in Note 3, expected credit losses are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased NCC takes into account the information listed in Note 3.

Key sources of estimation uncertainty

Probability of default. PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. See Note 30 for more details, including analysis of the sensitivity of the reported ECL to changes in PD resulting from changes in economic drivers.

Loss Given Default. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. See Note 3 for more details.

Provision. NCC is subject to litigation. Such litigation may lead to orders to pay against NCC. If it is more likely than not that an outflow of resources will occur, a provision will be recognised based on an estimate of the most probable amount necessary to settle the obligation if such amount is reasonably estimable. NCC determines whether there is a possible obligation from past events, evaluates the probability that an outflow will occur and estimates the potential amount of the outflow. As the outcome of litigation is usually uncertain, the judgement is reviewed continuously. See Note 9 and Note 26 for further information.

NCC may also assess the possibility of occurrence of other commitments and create appropriate provision. Acting as a commodity delivery operator (CDO), NCC has applied a conservative approach to creating provisions within the value of commodities for which NCC provides safekeeping.

Valuation of financial instruments. 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 28.

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

5. Interest income and expense

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---------------------------------|---------------------------------|
| Interest income on financial assets at fair value | | |
| Interest income on financial assets at FVTOCI | 7 341 807 | 8 090 847 |
| Interest income on financial assets at FVTPL | 457 544 | 255 132 |
| Total interest income on financial assets at fair value | 7 799 351 | 8 345 979 |
| Interest income on financial assets at amortized cost | | |
| Interest income on due from banks and other financial institutions | 3 703 923 | 2 173 925 |
| Interest income on customer accounts | 1 608 471 | - |
| Interest income on cash and cash equivalents | 584 739 | 1 421 162 |
| Total interest income on financial assets at amortized cost | 5 897 133 | 3 595 087 |
| Total interest income | 13 696 484 | 11 941 066 |
| Interest expense | | |
| Interest expense on cash and cash equivalents and due from financial institutions | (1 619 189) | - |
| Interest expense on interbank deposits | (138 899) | (2 477 565) |
| Interest expense on accounts of clearing participants | (212 511) | (389 249) |
| Interest expense on stress collateral | (146 786) | (37 064) |
| Interest expense on lease liabilities | (30 536) | (31 419) |
| Interest expense on REPO deals and other borrowed funds | (627) | (4 802) |
| Total interest expense | (2 148 548) | (2 940 099) |
| Total net interest income | 11 547 936 | 9 000 967 |

With effect from January 1, 2020, NCC applied a new structure of tariff for maintaining collateral in foreign currencies, according to which NCC charges negative interest on customers' balances in foreign currencies which correspond to the currency of placement in the correspondent banks. The fee set by the tariff is recognized as other commissions (Note 6), expense at negative interest rate is recognized as interest expense on cash and cash equivalents and due from financial institutions and interest income is recognized as interest income on customer accounts.

6. Fee and commission income

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---------------------------------|---------------------------------|
| Clearing services for money market | 5 879 919 | 4 633 914 |
| Clearing services for securities market | 2 994 162 | 2 008 579 |
| Clearing services for foreign exchange market | 1 684 660 | 1 531 883 |
| Clearing services for derivatives market | 1 743 833 | 1 219 597 |
| Other commissions | 688 162 | 95 071 |
| Total fee and commission income | 12 990 736 | 9 489 044 |

During the year ended December 31, 2019 the fee and commission income is 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.

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

7. Net gain on financial assets at fair value through other comprehensive income

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|--|---------------------------------|---------------------------------|
| Bonds issued by Russian Federation | 878 440 | 1 378 708 |
| Bonds issued by foreign companies of Russian groups | 21 440 | - |
| Bonds issued by Russian companies | 13 444 | 51 664 |
| Bonds issued by Russian commercial banks | 3 067 | 24 245 |
| Bonds issued by foreign financial organizations | (3 200) | 8 667 |
| Bonds issued by CBR | - | (72) |
| Net gain on financial assets at fair value through other comprehensive income | 913 191 | 1 463 212 |

8. Foreign exchange gains less losses

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---------------------------------|---------------------------------|
| Foreign exchange swaps | (1 698 322) | 2 960 366 |
| Net other foreign exchange (loss) / gain | (1 722) | 262 113 |
| Total foreign exchange gains less losses | (1 700 044) | 3 222 479 |

Net gains / (losses) on foreign exchange swaps includes financial result from swap deals used to hedge open foreign currency position of NCC and gain from swap transactions used to earn interest income from ruble-denominated funds.

9. Other operating income

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|--|---------------------------------|---------------------------------|
| Reversal of provision for losses related to potential commodity market shortages (Note 24) | 17 245 | - |
| Other income | 12 981 | 26 229 |
| Reversal of legal case provision | - | 873 040 |
| Total other operating income | 30 226 | 899 269 |

In December 2015 a clearing participant - brokerage company defaulted on its liabilities under deals on securities market that were foreclosed by NCC via standard default management procedures explicitly stipulated by the Law "On clearing, clearing activities and the central counterparty" to cover the liabilities to bona fide market and clearing participants. In September 2016 the brokerage company was declared bankrupt. In October 2017 the bankruptcy manager filed a lawsuit with the arbitration court, seeking to declare the deals on foreclosure as void. During the year 2018 the courts of first and second instances ruled to fulfil plaintiffs demands. NCC made a 100% provision and filed a cassation which was satisfied. In January 2019 the plaintiffs applied to the Supreme Court. As at March 31, 2019 NCC performed additional risk-assessment and recovered the provision (Note 26). In the second quarter 2019 the Supreme Court rejected to satisfy the plaintiffs' claim.

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

10. Personnel expenses

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|--|---------------------------------|---------------------------------|
| Personnel expenses | 848 860 | 591 577 |
| Payroll taxes and charges | 155 659 | 108 151 |
| Payments based on the shares of the parent company | 45 097 | 24 109 |
| Total personnel expenses | 1 049 616 | 723 837 |

Payments based on the shares of the parent company. In July 2020 the new long-term incentive program, based on the parent company's shares, was introduced (hereinafter - LTIP). Program participants have the right to receive Moscow Exchange ordinary shares granted under conditions set out in the program. The LTIP program vests when employee continues to be employed by the Group at the vesting date and the Group fulfills certain financial performance results set by the program. The maximum contractual term of the contracts is five years. Program participants are entitled to receive cash equivalent of fixed and variable number of shares, where variable number is defined as product of fixed number of shares and the sum of dividend yields for the three years preceding the vesting date. Received cash equivalent is directed to purchase of Moscow Exchange shares from the Group's company. Cash equivalent of fixed and variable number of shares is measured at each reporting date and final settlement.

The previous long-term incentive program, based on the parent company's shares, continues along with the LTIP. Rights to purchase equity instruments granted to some employees give 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. The 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 maximum contractual term of the contracts granted in 2017 is three and a half years. The fair value of the rights is measured at the grant date using a binomial model taking into account the terms and conditions under which the instruments were granted.

The following table illustrates the number and weighted average fair value (WAFV) of and movements in rights to receive shares of the parent company under the LTIP:

| | Number | WAFV |
|--|------------------|--------------|
| Outstanding as at January 1, 2020 | - | - |
| Granted during the period | 2 707 558 | 107,4 |
| Forfeited | (163 212) | 103,9 |
| Outstanding as at December 31, 2020 | 2 544 346 | 107,6 |

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 under previous program:

| | Number | WAEP |
|--|------------------|--------------|
| Outstanding as at December 31, 2018 | 4 950 000 | 112,9 |
| Granted during the period | 625 000 | 89,0 |
| Forfeited | (825 000) | 93,9 |
| Outstanding as at December 31, 2019 | 4 750 000 | 113,1 |
| Exercised | (2 850 000) | 112,4 |
| Outstanding as at December 31, 2020 | 1 900 000 | 114,0 |

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

10. Personnel expenses (continued)

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

The weighted average remaining contractual life for the rights outstanding as at December 31, 2020 was 0,2 year (December 31, 2019: 0,6 year). During the year ended December 31, 2020 rights were not granted (the weighted average fair value of rights granted during the year ended December 31, 2019 was RUB 12,13 per 1 right). Exercise prices for rights outstanding as at December 31, 2020 were RUB 108,68 – RUB 115,38 (December 31, 2019: RUB 107,96 – RUB 115,38).

The number of equity rights exercisable as at December 31, 2020 is 400 000 with WAEP of RUB 108,7 (December 31, 2019: 1 475 000 with WAEP of RUB 111,6).

11. Administrative and other operating expenses

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---------------------------------|---------------------------------|
| Maintenance of property and equipment and intangible assets | 167 550 | 129 199 |
| Depository services | 148 401 | 129 703 |
| Depreciation and amortization charge | 147 560 | 117 265 |
| Professional services | 134 319 | 218 119 |
| Settlement services and bank fees | 100 303 | 102 896 |
| Taxes, other than income tax | 66 344 | 62 761 |
| Information and technological services | 55 599 | 54 617 |
| Communications services | 8 111 | 7 246 |
| Lease of property and equipment | 465 | 1 455 |
| Other | 20 362 | 21 647 |
| Total administrative and other operating expenses | 849 014 | 844 908 |

Professional services comprise consulting, audit, legal services, commodities storage services and other services. The change in professional services expenses during the year ended December 31, 2020 is due to the decrease in the expenses for commodities storage incurred by NCC while acting as a commodity delivery operator due to reduction in the volume of grain in storage.

12. Movement in allowance for expected credit losses

| <i>Note</i> | Cash and cash equivalents | Due from credit institutions | Financial assets at fair value through other comprehensive income | Other financial assets | Total |
|---|------------------------------|---------------------------------|---|---------------------------|------------------|
| | <i>15</i> | <i>17</i> | | <i>21</i> | |
| December 31, 2018 | 4 638 | 35 869 | 183 839 | 13 233 | 237 579 |
| Net (recovery) / charge for the period | (2 906) | (35 869) | 13 727 | 2 323 290 | 2 298 242 |
| December 31, 2019 | 1 732 | - | 197 566 | 2 336 523 | 2 535 821 |
| Net (recovery) / charge for the period | (1 558) | 5 842 | 39 762 | 2 765 | 46 811 |
| December 31, 2020 | 174 | 5 842 | 237 328 | 2 339 288 | 2 582 632 |

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

12. Movement in allowance for expected credit losses (continued)

The allowance for expected credit losses of NCC consists of the loss allowance measured at an amount equal to 12-month expected credit losses for Stage 1 assets, and the loss allowance measured at an amount equal to lifetime expected credit losses for Stage 2 and Stage 3 assets.

As at December 31, 2020 and December 31, 2019 all financial assets of NCC, except for other financial assets, fully relate to Stage 1. The composition of NCC's other financial assets and correspondent allowances for expected credit losses by stages as at December 31, 2020 and December 31, 2019 is provided below:

| | December 31, 2020 | December 31, 2019 |
|---|--------------------|--------------------|
| Stage 1 assets | 271 580 | 193 889 |
| Stage 3 assets | 2 336 141 | 2 336 141 |
| Total financial assets | 2 607 721 | 2 530 030 |
| Allowance for Stage 1 assets | (3 147) | (382) |
| Allowance for Stage 3 assets | (2 336 141) | (2 336 141) |
| Total allowance for expected credit losses | (2 339 288) | (2 336 523) |

The tables below analyzes information about the significant changes in the gross carrying amount of other financial assets that contributed to changes in the loss allowance as well as the movement of the loss allowance during the year ended December 31, 2020:

| | Stage 1 | Stage 3 | Total |
|--|----------------|--------------------|--------------------|
| Gross carrying amount as at January 1, 2020 | 193 889 | 2 336 141 | 2 530 030 |
| New financial assets originated or purchased less financial assets that have been derecognized due to being redeemed or sold | 77 691 | - | 77 691 |
| Gross carrying amount as at December 31, 2020 | 271 580 | 2 336 141 | 2 607 721 |
| Loss allowance as at December 31, 2020 | (3 147) | (2 336 141) | (2 339 288) |

| | Stage 1 | Stage 3 | Total |
|--|--------------|------------------|------------------|
| Loss allowance as at January 1, 2020 | 382 | 2 336 141 | 2 336 523 |
| New financial assets originated or purchased less financial assets that have been derecognized due to being redeemed or sold | 777 | - | 777 |
| Net increase/(decrease) in credit risk | 1 988 | - | 1 988 |
| Loss allowance as at December 31, 2020 | 3 147 | 2 336 141 | 2 339 288 |

The tables below analyzes information about the significant changes in the gross carrying amount of other financial assets that contributed to changes in the loss allowance as well as the movement of the loss allowance during the year ended December 31, 2019:

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

12. Movement in allowance for expected credit losses (continued)

| | Stage 1 | Stage 3 | Total |
|--|----------------|--------------------|--------------------|
| Gross carrying amount as at January 1, 2019 | 191 209 | - | 191 209 |
| New financial assets originated or purchased less financial assets that have been derecognized due to being redeemed or sold | 2 338 821 | - | 2 338 821 |
| Transfer to stage 3 | (2 336 141) | 2 336 141 | - |
| Gross carrying amount as at December 31, 2019 | 193 889 | 2 336 141 | 2 530 030 |
| Loss allowance as at December 31, 2019 | (382) | (2 336 141) | (2 336 523) |

| | Stage 1 | Stage 3 | Total |
|--|---------------|------------------|------------------|
| Loss allowance as at January 1, 2019 | 13 233 | - | 13 233 |
| New financial assets originated or purchased less financial assets that have been derecognized due to being redeemed or sold | 23 388 | - | 23 388 |
| Transfer to stage 3 | (23 361) | 23 361 | - |
| Net increase/(decrease) in credit risk | (12 878) | 2 312 780 | 2 299 902 |
| Loss allowance as at December 31, 2019 | 382 | 2 336 141 | 2 336 523 |

13. Other expenses

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|--|---------------------------------|---------------------------------|
| Movement in allowance for expected credit losses (Note 12) | 46 811 | 2 298 242 |
| Provision for losses related to potential commodity market shortages (Note 24) | - | 31 660 |
| Total other expenses | 46 811 | 2 329 902 |

Grain. In the first quarter of 2019 NCC operating as a CDO found, during regular inspections of commodities stored in grain warehouses, several instances where grain stockpiles used as collateral under swap trades were missing, allegedly due to theft. This risk related to use of a partner's infrastructure for storing commodity assets is inherent exclusively to the agricultural products market. NCC's risk protection system and risk monitoring on the grain market consists of evaluation of technical condition and financial position of the counterparty (certification), regular independent surveys with rotation of surveyors, and insurance coverage, including covering the risk of fraud, which size was sufficient to cover possible losses based on previous cases in the market. NCC has undertaken all necessary actions, such as: has filed 13 claims for the initiation of criminal and civil proceedings, demanding the execution of trades, reclaiming missing collateral and claiming insurance.

The amount receivable from the accredited elevators is presented as other assets (Note 21), for which a 100% provision has been created.

Sugar. Despite the fact that there have been no instances of missing other kinds of commodities (sugar), NCC has applied a conservative approach to assessing the risk of loss and creating provisions for possible losses of commodities (sugar) stockpiles at warehouses. On a regular basis, NCC conducts on-site inspections to ensure the security and quality of sugar stockpiles.

The total amount of provision for CDO operations as at December 31, 2020 is RUB 2 350 556 thousand (December 31, 2019: RUB 2 367 801 thousand).

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

14. Income tax expense

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---------------------------------|---------------------------------|---------------------------------|
| Current income tax expense | 2 794 594 | 7 305 627 |
| Deferred taxation movement | 1 704 856 | (3 404 478) |
| Total income tax expense | 4 499 450 | 3 901 149 |

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

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---------------------------------|---------------------------------|
| Profit before income tax | 21 888 139 | 20 320 858 |
| Tax at the statutory tax rate (20%) | 4 377 628 | 4 064 172 |
| Tax effect of income taxed at rates other than the 20% rate | (262 975) | (249 062) |
| Adjustments in respect of deferred income tax of previous years | 379 170 | - |
| Tax effect of permanent differences | 5 627 | 86 039 |
| Income tax expense | 4 499 450 | 3 901 149 |

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.

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

14. Income tax expense (continued)

Tax effect of temporary differences as at December 31, 2020 and December 31, 2019 comprise:

| | Statement of financial position | | Recognized in statement of comprehensive income | |
|---|---------------------------------|-------------------|---|-------------------------------------|
| | December 31, 2020 | December 31, 2019 | Year ended December 31, 2020 | Year ended December 31, 2019 |
| Effect of deductible temporary differences | | | | |
| Due from banks and other financial institutions | 1 203 | 346 | 857 | (7 755) |
| Financial assets and liabilities at fair value through profit or loss | 3 461 | 86 918 | (83 457) | 86 918 |
| Financial assets at fair value through other comprehensive income | - | 794 711 | (794 711) | 794 711 |
| Property and equipment and intangible assets | 3 422 | 4 374 | (952) | 2 659 |
| Other assets | 645 571 | 641 151 | 4 420 | 467 095 |
| Other liabilities | 92 220 | 55 414 | 36 806 | (210 986) |
| Total effect of deductible temporary differences | 745 877 | 1 582 914 | (837 037) | 1 132 642 |
| Effect of taxable temporary differences | | | | |
| Financial assets and liabilities at fair value through profit or loss | - | - | - | 180 486 |
| Financial assets at fair value through other comprehensive income | (871 861) | - | (867 819) | 2 091 350 |
| Total effect of taxable differences | (871 861) | - | (867 819) | 2 271 836 |
| Total deferred income tax expense | | | (1 704 856) | 3 404 478 |
| Deferred tax (liabilities) / assets | (125 984) | 1 582 914 | | |
| | | | Year ended December 31, 2020 | Year ended December 31, 2019 |
| Beginning of the period – deferred tax assets / (liabilities) | | | 1 582 914 | (1 023 095) |
| Change in deferred tax recognized in profit or loss | | | (1 704 856) | 3 404 478 |
| Change in deferred tax recognized in other comprehensive income | | | (4 042) | (798 469) |
| End of the period – deferred tax assets / (liabilities) | | | (125 984) | 1 582 914 |

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

15. Cash and cash equivalents

| | December 31, 2020 | December 31, 2019 |
|---|--------------------|--------------------|
| Correspondent accounts and overnight deposits with other credit organizations | 597 612 055 | 477 218 022 |
| Balances with the CBR | 24 446 828 | 48 253 066 |
| Cash on hand | 1 643 | 2 341 |
| Settlements on brokerage operations | 628 | 174 |
| Total cash and cash equivalents | 622 061 154 | 525 473 603 |
| Less allowance for ECL (Note 12) | (174) | (1 732) |
| Total cash and cash equivalents | 622 060 980 | 525 471 871 |

As at December 31, 2020 cash and cash equivalents include balances with seven counterparties (December 31, 2019: with twelve counterparties) in the amount of RUB 602 219 471 thousand (December 31, 2019: RUB 522 134 552 thousand), which represents a significant concentration.

16. Financial assets and liabilities at fair value through profit or loss

| | December 31, 2020 | December 31, 2019 |
|--|-------------------|-------------------|
| Bonds issued by foreign companies of Russian groups | 18 312 017 | 13 418 522 |
| Shares issued by foreign companies | 5 691 | 4 111 |
| Fair value of foreign currency derivatives | 1 185 | 49 978 |
| Total financial assets at fair value through profit or loss | 18 318 893 | 13 472 611 |

The table below shows the analysis of derivatives of NCC as at December 31, 2020 and as at December 31, 2019:

| | Fair value of principal amount or agreed amount | | Assets - positive fair value | Liabilities - negative fair value |
|--------------------------|---|---------------|------------------------------|-----------------------------------|
| | Receivables | Payables | | |
| December 31, 2020 | | | | |
| Currency swaps | 118 872 968 | (119 535 963) | 1 185 | (664 180) |
| December 31, 2019 | | | | |
| Currency swaps | 60 621 161 | (60 604 014) | 49 978 | (32 831) |

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

17. Due from banks and other financial institutions

| | December 31, 2020 | December 31, 2019 |
|--|--------------------|-------------------|
| Term deposits | 51 038 436 | - |
| Reverse repurchase agreements with financial institutions | 49 436 181 | 48 445 455 |
| Other time deposits with the CBR | 40 004 590 | - |
| Correspondent accounts in precious metals | 4 777 374 | 4 189 132 |
| Cash collateral received under swap deals | 177 318 | - |
| Total due from banks and other financial institutions | 145 433 899 | 52 634 587 |
| Less allowance for ECL (Note 12) | (5 842) | - |
| Total due from financial institutions | 145 428 057 | 52 634 587 |

As at December 31, 2020 due from banks and other financial institutions include balances with five counterparties (December 31, 2019: with two counterparties) in the amount of RUB 140 473 354 thousand (December 31, 2019: RUB 48 445 456 thousand), which represents a significant concentration.

As at December 31, 2020 the fair value of financial instruments pledged under reverse repurchase agreements with financial institutions was RUB 60 493 503 thousand (December 31, 2019: RUB 60 190 176 thousand).

18. Financial assets and liabilities of central counterparty

| | December 31, 2020 | December 31, 2019 |
|---|----------------------|----------------------|
| Repo transactions | 4 047 661 790 | 3 259 579 211 |
| Currency transactions | 3 175 846 | 3 091 411 |
| Total financial assets and liabilities of central counterparty | 4 050 837 636 | 3 262 670 622 |

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.

As at December 31, 2020 the fair value of securities purchased and sold by NCC under repo transactions is RUB 4 549 077 235 thousand (December 31, 2019: RUB 3 771 234 861 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 31.

As at December 31, 2020 and December 31, 2019 there was no allowance created for financial assets of central counterparty, these financial assets were neither overdue nor credit-impaired.

19. Financial assets at fair value through other comprehensive income

| | December 31, 2020 | December 31, 2019 |
|--|--------------------|--------------------|
| Bonds issued by Russian Federation | 67 818 194 | 61 928 992 |
| Bonds issued by foreign companies of Russian groups | 53 963 017 | 37 465 848 |
| Bonds issued by Russian companies | 35 507 316 | 28 908 105 |
| Bonds issued by Russian commercial banks | 13 522 840 | 14 160 581 |
| Bonds issued by foreign financial organizations | 466 105 | 2 587 232 |
| Financial assets at fair value through other comprehensive income | 171 277 472 | 145 050 758 |

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

19. Financial assets at fair value through other comprehensive income (continued)

As at December 31, 2020 financial assets at fair value through other comprehensive income of RUB 66 935 355 thousand (December 31, 2019: RUB 63 694 304 thousand) were included in the "Blocked by the CBR" section of NCC's securities account and could be used as a collateral for NCC's borrowings within the limit set by the CBR (see CBR Regulation No. 4801-U, "On the methods and criteria of collateralized refinancing of credit organizations" dated May 22, 2018).

20. Property, equipment and intangible assets

| | Furniture & Equipment | Intangible assets | Trademark | Intangible assets in progress | Right-of-use assets | Total |
|--|-----------------------|-------------------|--------------|-------------------------------|---------------------|------------------|
| Cost | | | | | | |
| December 31, 2018 | 75 239 | 323 935 | 1 830 | 12 669 | - | 413 673 |
| January 1, 2019 (with IFRS 16 effect) | 75 239 | 323 935 | 1 830 | 12 669 | 392 536 | 806 209 |
| Additions | 7 012 | 87 515 | - | 58 256 | - | 152 783 |
| Write-off | - | (829) | - | - | - | (829) |
| Transfer | - | 12 373 | - | (12 373) | - | - |
| Modification and remeasurement | - | - | - | - | (13 475) | (13 475) |
| December 31, 2019 | 82 251 | 422 994 | 1 830 | 58 552 | 379 061 | 944 688 |
| Additions | 10 837 | 49 522 | - | 57 982 | 83 455 | 201 796 |
| Write-off | (714) | - | - | - | (36 884) | (37 598) |
| Transfer | - | 37 708 | - | (37 708) | - | - |
| Modification and remeasurement | - | - | - | - | 13 087 | 13 087 |
| December 31, 2020 | 92 374 | 510 224 | 1 830 | 78 826 | 438 719 | 1 121 973 |
| Accumulated depreciation | | | | | | |
| December 31, 2018 | 62 467 | 150 532 | 447 | - | - | 213 446 |
| January 1, 2019 (with IFRS 16 effect) | 62 467 | 150 532 | 447 | - | - | 213 446 |
| Charge for the period | 14 003 | 63 101 | 261 | - | 39 900 | 117 265 |
| Eliminated on disposal | - | (829) | - | - | - | (829) |
| December 31, 2019 | 76 470 | 212 804 | 708 | - | 39 900 | 329 882 |
| Charge for the period | 6 315 | 97 647 | 262 | - | 43 336 | 147 560 |
| Eliminated on disposal | (714) | - | - | - | (3 576) | (4 290) |
| December 31, 2020 | 82 071 | 310 451 | 970 | - | 79 660 | 473 152 |
| Net book value | | | | | | |
| December 31, 2019 | 5 781 | 210 190 | 1 122 | 58 552 | 339 161 | 614 806 |
| December 31, 2020 | 10 303 | 199 773 | 860 | 78 826 | 359 059 | 648 821 |

As at December 31, 2020 NCC's historical cost of fully depreciated property and equipment amounts to RUB 74 524 thousand (December 31, 2019: RUB 73 020 thousand).

As at December 31, 2020 the book value of right-of-use assets is represented by leased premises in the amount of RUB 345 971 thousand and cars and parking spaces in the amount of RUB 13 088 thousand (December 31, 2019: RUB 327 368 thousand and RUB 11 793 thousand).

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

20. Property, equipment and intangible assets (continued)

The amounts recognized in profit or loss related to NCC's lease contracts are as follows:

| | December 31, 2020 | December 31, 2019 |
|---|-------------------|-------------------|
| Amounts recognised in profit or loss | | |
| Depreciation expense on right-of-use assets | 43 336 | 39 900 |
| Interest expense on lease liabilities | 30 536 | 31 419 |
| Expense relating to short-term leases | 465 | 1 455 |
| | 74 337 | 72 774 |

21. Other assets

| | December 31, 2020 | December 31, 2019 |
|---|-------------------|-------------------|
| Other financial assets | | |
| Receivables on services rendered and other operations | 2 607 721 | 2 530 030 |
| Less allowance for ECL (Note 12) | (2 339 288) | (2 336 523) |
| Total other financial assets | 268 433 | 193 507 |
| Other non-financial assets | | |
| Precious metals | 255 057 | 3 134 287 |
| Prepayments and advances | 74 231 | 53 001 |
| Taxes receivable other than income tax | 2 700 | 2 634 |
| Total other non-financial assets | 331 988 | 3 189 922 |
| Total other assets | 600 421 | 3 383 429 |

As at December 31, 2020 and December 31, 2019 receivables on services rendered and other operations include receivables from grain warehouses (Note 13) in the amount of RUB 2 336 141 thousand, fully covered by the allowance for expected credit losses.

22. Customer accounts

| | December 31, 2020 | December 31, 2019 |
|-----------------------------------|--------------------|--------------------|
| Accounts of clearing participants | 815 104 343 | 565 825 353 |
| Current accounts | 30 798 702 | 21 582 914 |
| Stress collateral | 15 387 300 | 19 006 222 |
| Risk-covering funds | 5 826 617 | 5 516 257 |
| Accounts in precious metals | 5 032 387 | 7 336 259 |
| Margin account | - | 579 |
| Total customer accounts | 872 149 349 | 619 267 584 |

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

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

22. Customer accounts (continued)

Guarantee funds consist of collective clearing collateral contributed by clearing members. The purpose of these funds is to ensure the fulfillment of the obligations admitted for clearing of any of the clearing participants, according to which open positions secured by collective clearing collateral, in cases established by the collective clearing collateral agreement, are settled with the property that is the subject of collective clearing collateral.

23. Overnight bank loans

| | December 31, 2020 | December 31, 2019 |
|-----------------------------------|-------------------|-------------------|
| Overnight bank loans | - | 49 229 140 |
| Total overnight bank loans | - | 49 229 140 |

As at December 31, 2019 overnight bank loans included balances with one counterparty, which is greater than 10% of equity. The amount of this balance is RUB 31 741 404 thousand or 64% of the total overnight bank loans as at December 31, 2019.

24. Other liabilities

| | December 31, 2020 | December 31, 2019 |
|---|-------------------|-------------------|
| Other financial liabilities | | |
| Dividends payable | 7 759 052 | - |
| Lease liabilities | 385 614 | 351 889 |
| Payables for depositary and settlement operations | 168 075 | 176 188 |
| Payables for unused vacations | 41 523 | 28 360 |
| Payables on information and technological services | 30 401 | 17 981 |
| Payroll payables to personnel | - | 1 372 |
| Payables to clearing participants with revoked licences | 155 | 154 |
| Other | 59 333 | 76 426 |
| Total other financial liabilities | 8 444 153 | 652 370 |
| Other non-financial liabilities | | |
| Other payables to personnel | 305 329 | 202 098 |
| Taxes payable, other than income tax | 85 856 | 42 562 |
| Provision | 14 415 | 31 660 |
| Total other non-financial liabilities | 405 600 | 276 320 |
| Total other liabilities | 8 849 753 | 928 690 |

The movement of provision for the year ended December 31, 2020 and the year ended December 31, 2019 is provided below:

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|--|---------------------------------|---------------------------------|
| Beginning of the period | 31 660 | 873 040 |
| Net (recovery) / charge for the period (Note 13) | (17 245) | 31 660 |
| Recovery of legal case provision (Note 9) | - | (873 040) |
| End of the period | 14 415 | 31 660 |

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

24. Other liabilities (continued)

The movement of other payables to personnel for the year ended December 31, 2020 and the year ended December 31, 2019 is provided below:

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|--------------------------------|---------------------------------|---------------------------------|
| Beginning of the period | 202 098 | 202 118 |
| Net charge for the period | 319 245 | 175 855 |
| Personnel remuneration paid | (216 014) | (175 875) |
| End of the period | 305 329 | 202 098 |

Maturity analysis of lease liabilities as at December 31, 2020 and December 31, 2019 is provided below:

| | December 31, 2020 | December 31, 2019 |
|--|-------------------|-------------------|
| Maturity analysis of lease liabilities: | | |
| Less than one year | 68 649 | 57 644 |
| One to two years | 66 332 | 55 722 |
| Two to three years | 65 504 | 55 722 |
| Three to four years | 65 504 | 55 722 |
| Four to five years | 65 504 | 55 722 |
| More than five years | 198 801 | 224 085 |
| Less unearned interest | (144 680) | (152 728) |
| Lease liabilities | 385 614 | 351 889 |

The table below details changes in NCC's lease liabilities arising from financial activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in NCC's Statement of Cash Flows as cash flows from financing activities.

| | |
|--------------------------------|----------------|
| January 1, 2019 | 392 536 |
| Financing cash flows | (19 230) |
| Modification and remeasurement | (13 475) |
| Other | (7 942) |
| December 31, 2019 | 351 889 |
| Financing cash flows | (29 509) |
| Modification and remeasurement | 13 087 |
| New leases | 51 150 |
| Other | (1 003) |
| December 31, 2020 | 385 614 |

25. Share capital and paid-in capital

As at December 31, 2020 and December 31, 2019 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.

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

25. Share capital and paid-in capital (continued)

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, 2020 the reserve fund amounted to RUB 966 775 thousand (December 31, 2019: RUB 966 775 thousand). Reserve fund is stated as a part of retained earnings.

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 10 100 000 thousand (December 31, 2019: RUB 10 100 000 thousand);
- Funds for termination or restructuring of CCP activities, in amount of RUB 794 590 thousand (December 31, 2019: RUB 690 479 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 397 295 thousand (December 31, 2019: RUB 345 240 thousand).

26. Commitments and contingencies

Legal proceedings. From time to time and in the normal course of business, claims against NCC may be received from customers and counterparties. Management of NCC believes that such claims may not have a material impact on its financial and operational activities and that no material losses will be incurred, and accordingly no provision has been made in these Interim Condensed Financial Statements. During the year ended December 31, 2019 NCC has recovered previously created provision for a litigation (Note 9).

Commodities. Acting as CDO NCC provides safekeeping of commodities required for clearing purposes. As at December 31, 2020 NCC had 1 334 tons of sugar and 5,1 tons of grain in safekeeping (December 31, 2019: 3 800 tons of sugar and 5,1 tons of grain). NCC accepts the operational risk on these activities, but the NCC's customers bear the credit and market risks associated with such operations.

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.

Starting from 2017 the tax service of the Russian Federation conducted a tax monitoring of NCC 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. In December 2020 the tax service of the Russian Federation decided to conduct a tax monitoring of NCC in 2021.

Tax monitoring is a type of tax control that has been in force in the Russian Federation since January 1, 2015. Tax monitoring is held 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.

Field tax control may cover three calendar years preceding the year of the first tax monitoring, for NCC this is 2018 respectively. Under certain conditions, in accordance with tax laws, earlier periods may also be subject to control.

As at December 31, 2020 management believes that its interpretation of the relevant legislation is appropriate and that NCC's tax, currency and customs positions will be sustained.

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

27. Transactions with related parties

Control relationships. As at December 31, 2020 and December 31, 2019 NCC is a wholly owned subsidiary of Moscow Exchange. Russian Federation exercised significant influence over Moscow Exchange.

The Statement of Comprehensive Income for the year ended December 31, 2020 and the year ended December 31, 2019 includes the following amounts with related parties:

| | Year ended December 31, 2020 | | Year ended December 31, 2019 | |
|---|---------------------------------|-----------------------|---------------------------------|-----------------------|
| | Parent | Other related parties | Parent | Other related parties |
| Interest income | - | 162 346 | - | - |
| Interest expenses | (21 496) | (309 897) | (23 760) | (7 748) |
| Commission income (recoverable expenses) | 2 994 | 66 846 | 2 844 | (25 113) |
| Foreign exchange gains less losses | (778) | (1 645 678) | - | (1 095 616) |
| Other operating income | 8 | 3 | - | - |
| Administrative and other operating expenses | (102 773) | (248 062) | (103 118) | (237 124) |

NCC refined its approach to presentation of operations with financial assets at FVTOCI with related parties and presented volumes of trades and basis of their conclusion as follows:

- with parent: during the year ended December 31, 2020 NCC purchased bonds for RUB 1 252 339 thousand and sold bonds for RUB 4 413 033 thousand (during the year ended December 31, 2019: purchases for RUB 1 011 724 thousand, sales for RUB 12 524 583 thousand).
- with other related parties: during the year ended December 31, 2020 NCC purchased bonds for RUB 1 065 450 thousand and sold bonds for RUB 7 970 854 thousand (during the year ended December 31, 2019: no purchases, sales for RUB 21 258 986 thousand).

The Statement of Financial Position as at December 31, 2020 and December 31, 2019 includes the following amounts with related parties:

| | December 31, 2020 | | December 31, 2019 | |
|---------------------------------|-------------------|-----------------------|-------------------|-----------------------|
| | Parent | Other related parties | Parent | Other related parties |
| Cash and cash equivalents | - | 168 178 028 | - | 74 898 667 |
| Other assets | 880 | 68 312 | 800 | 9 230 |
| Derivatives recognized at FVTPL | - | (524 697) | - | 154 |
| Customer accounts | (1 658 146) | (304 915 278) | (1 476 478) | (135 837 685) |
| Other liabilities | (8 002 431) | (208 998) | (280 192) | (142 329) |

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:

| | December 31, 2020 | December 31, 2019 |
|--|-------------------|-------------------|
| Other liabilities | 64 249 | 27 763 |
| Payments based on the shares of the parent company | 29 178 | 65 472 |

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

27. Transactions with related parties (continued)

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

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---------------------------------|---------------------------------|
| Short-term employee benefits, except for share-based payments | 136 674 | 123 496 |
| Share-based payment expense | 30 215 | 24 109 |
| Long-term employee benefits | 19 914 | 19 166 |
| Total remuneration of key management personnel | 186 803 | 166 771 |

Transactions with government-related entities. In the ordinary course of business NCC provides trading, clearing and depository 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, 2020 and December 31, 2019 and for the year ended December 31, 2020 and the year ended December 31, 2019:

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---------------------------------|---------------------------------|
| Interest income | 7 684 630 | 7 041 345 |
| Interest expense | (431 619) | (2 601 273) |
| Fee and commission income | 4 913 159 | 3 109 354 |
| Net gain on financial assets at FVTPL | 35 037 | - |
| Foreign exchange gains less losses | (190 119) | 1 099 796 |
| Other operating income | 2 788 | 2 314 |
| Administrative and other operating expenses | (4 563) | (10 299) |

NCC refined its approach to presentation of operations with financial assets at FVTOCI with government-related parties and presented volumes of trades and basis of their conclusion as follows:

During the year ended December 31, 2020 NCC purchased bonds for RUB 62 684 437 thousand and sold bonds for RUB 3 541 190 thousand (during the year ended December 31, 2019: purchases for RUB 51 532 454 thousand, sales for RUB 47 909 284 thousand).

| | December 31, 2020 | December 31, 2019 |
|--|-------------------|-------------------|
| Assets | | |
| Cash and cash equivalents | 89 188 558 | 130 046 350 |
| Due from financial institutions | 82 755 119 | - |
| Financial assets of central counterparty | 1 339 890 209 | 947 804 960 |
| Financial assets at FVTOCI | 113 218 577 | 89 340 731 |
| Other assets | 94 846 | 82 765 |
| Liabilities | | |
| Customer accounts | 219 765 074 | 185 569 388 |
| Overnight bank loans | - | 42 343 144 |
| Central counterparty financial liabilities | 2 448 407 364 | 1 853 104 305 |
| Derivatives recognized at FVTPL | - | 32 375 |
| Other liabilities | 684 | 160 |

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

28. 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.

The tables below analyse NCC's financial assets and liabilities measured at fair value at December 31, 2020 and December 31, 2019 by the level in the fair value hierarchy into which the fair value measurement is categorised::

| | December 31, 2020 | | | Total |
|---|-------------------|------------|---------|-------------|
| | Level 1 | Level 2 | Level 3 | |
| Financial assets at FVTPL | 18 312 017 | 1 185 | 5 691 | 18 318 893 |
| Central counterparty financial assets and liabilities (foreign currency operations) | 3 175 846 | - | - | 3 175 846 |
| Financial assets at FVTOCI | 161 037 990 | 10 239 482 | - | 171 277 472 |
| Derivatives recognized at FVTPL (liabilities) | - | (664 180) | - | (664 180) |

| | December 31, 2019 | | | Total |
|---|-------------------|-----------|---------|-------------|
| | Level 1 | Level 2 | Level 3 | |
| Financial assets at FVTPL | 13 418 522 | 49 978 | 4 111 | 13 472 611 |
| Central counterparty financial assets and liabilities (foreign currency operations) | 3 091 411 | - | - | 3 091 411 |
| Financial assets at FVTOCI | 136 765 397 | 8 285 361 | - | 145 050 758 |
| Derivatives recognized at FVTPL (liabilities) | - | (32 831) | - | (32 831) |

Management of NCC considers that the fair value of "Cash and cash equivalents", "Due from banks and other financial institutions", "Financial assets and liabilities of central counterparty (REPO transactions)", "Other financial assets", "Customer accounts", "Overnight bank loans" and "Other financial liabilities" not carried at fair value Statement of Financial Position approximates their carrying value due to their short-term nature and refer to level 2 hierarchy of fair value.

There were no changes in fair value of level 3 assets during the year ended December 31, 2020 and the year ended December 31, 2019.

Transfers between level 1 and 2

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.

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

28. Fair value measurements (continued)

| | Transfers between Level 1 and Level 2 | |
|--------------------------------|---------------------------------------|---------------------------------|
| | Year ended December 31, 2020 | Year ended December 31, 2019 |
| From Level 1 to Level 2 | | |
| Financial assets at FVTOCI | 4 889 405 | 1 706 744 |
| From Level 2 to Level 1 | | |
| Financial assets at FVTOCI | 4 205 939 | 5 031 115 |

29. 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 2019.

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, 2020 his minimum level was 100% (December 31, 2019: 100%). NCC was in compliance with the statutory capital ratio during the year ended December 31, 2020 and the year ended December 31, 2019.

| | December 31, 2020 | December 31, 2019 |
|--------------------------------------|-------------------|-------------------|
| Equity | 73 302 615 | 70 580 566 |
| Risk weighted assets | 49 413 484 | 42 859 647 |
| Capital adequacy ratio (H1цк) | 148,4% | 164,7% |
| Statutory ratio of capital adequacy | 100% | 100% |

From the assignment of status of non-banking credit organization – central counterparty (November 28, 2017) NCC daily calculates ratios according to Instruction of Bank of Russia №175-I as at November 14, 2016.

30. 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.

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

30. Risk management policies (continued)

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.

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.

The key changes of NCC risk management system implemented within a reporting period are the following:

- NCC developed the Methodology for defining maximum storage limits aiming to mitigate custodial risk;
- NCC's risk-appetite indicators were revised with regard to Moscow Exchange Group's risk-appetite and events occurred in the reporting period.

A description of NCC's risk management policies in relation to each significant risk is as follows.

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.

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

30. Risk management policies (continued)

Should one or more clearing members default, CCP takes necessary measures to perform its obligations to non-defaulting clearing members.

In all markets of NCC 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.

Should a clearing member default 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 NCC.

As explained in Note 4, NCC monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk NCC will measure the loss allowance based on lifetime rather than 12-month ECL.

NCC uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL.

Starting January 1, 2020, NCC uses CDS curves quotes in its measurement of ECL. NCC has identified and documented the key driver of credit risk and credit losses – CDS of Russia.

NCC has performed a sensitivity analysis on how ECL on the main portfolios will change if the key assumptions used to calculate ECL change by a certain percentage.

The table below outlines the total ECL per portfolio as at December 31, 2020 if the assumptions used to measure ECL remain as expected (amount as presented in the statement of financial position), as well as if the key assumption used change by plus or minus 10% (parallel shift of CDS curve):

| | As expected | ECL Cumulative |
|---------------|-------------|----------------|
| | -10% | 2 564 833 |
| CDS of Russia | - | 2 582 632 |
| | 10% | 2 600 437 |

As at December 31, 2020 and December 31, 2019 NCC has no modified financial assets as a result of NCC's forbearance activities and no amounts outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity.

Maximum credit risk exposure. The NCC's maximum exposure to credit risk equals to the carrying value of assets that bear credit risk.

Financial assets are classified according to the current credit ratings issued by international rating agencies (Fitch Ratings, Standard & Poor's and Moody's Investor Service). 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 15) include accounts with National Settlement Depository ("NSD") of RUB 168 178 028 thousand (December 31, 2019: RUB 74 898 667 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, 2020 NSD had AA- rating (December 31, 2019: AA-) which corresponds to the low risk level.

As at December 31, 2020 and December 31, 2019 balances with the CBR classified at the sovereign credit rating level of the Russian Federation. Tables below do not include accounts in precious metals.

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

30. Risk management policies (continued)

The following tables detail the credit ratings of financial assets held by NCC as at December 31, 2020 and December 31, 2019:

| | AA | A | BBB | less BBB- | Not rated | December 31, 2020 Total |
|---------------------------------------|-------------|------------|-------------|---------------|---------------|-------------------------------|
| FINANCIAL ASSETS: | | | | | | |
| Cash equivalents | 274 244 752 | 83 850 902 | 71 946 766 | 22 671 307 | 169 345 610 | 622 059 337 |
| Financial assets at FVTPL | - | 548 | 10 803 950 | 7 508 704 | - | 18 313 202 |
| Due from financial institutions | 33 986 | 143 332 | 82 762 099 | 57 711 255 | 11 | 140 650 683 |
| Central counterparty financial assets | - | - | 562 414 303 | 1 509 083 117 | 1 979 340 216 | 4 050 837 636 |
| Financial assets at FVTOCI | - | 336 092 | 136 239 997 | 32 518 755 | 2 182 628 | 171 277 472 |
| Other financial assets | - | - | 51 775 | 88 557 | 128 101 | 268 433 |

| | AA | A | BBB | less BBB- | Not rated | December 31, 2019 Total |
|---------------------------------------|-------------|------------|-------------|---------------|---------------|-------------------------------|
| FINANCIAL ASSETS: | | | | | | |
| Cash equivalents | 231 474 092 | 79 226 177 | 113 629 895 | 24 693 874 | 76 445 492 | 525 469 530 |
| Financial assets at FVTPL | 15 100 | 22 286 | 13 430 762 | 39 | 313 | 13 468 500 |
| Due from financial institutions | - | - | - | 38 399 774 | 10 045 681 | 48 445 455 |
| Central counterparty financial assets | - | - | 467 000 875 | 1 363 523 536 | 1 432 146 211 | 3 262 670 622 |
| Financial assets at FVTOCI | - | 1 468 972 | 117 901 837 | 22 881 145 | 2 798 804 | 145 050 758 |
| Other financial assets | - | 2 | 65 182 | 46 323 | 82 000 | 193 507 |

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

Geographical concentration. Geographical concentration of assets and liabilities is as follows:

| | Russian Federation | OECD countries | Other | December 31, 2020 Total |
|--|----------------------|--------------------|------------------|-------------------------------|
| Financial assets | | | | |
| Cash and cash equivalents | 198 527 227 | 423 368 022 | 165 731 | 622 060 980 |
| Financial assets at FVTPL | 636 | 18 318 257 | - | 18 318 893 |
| Due from financial institutions | 140 473 365 | 177 318 | - | 140 650 683 |
| Central counterparty financial assets | 4 050 828 635 | - | 9 001 | 4 050 837 636 |
| Financial assets at FVTOCI | 117 184 442 | 53 963 017 | 130 013 | 171 277 472 |
| Other financial assets | 262 196 | 6 234 | 3 | 268 433 |
| Total financial assets | 4 507 276 501 | 495 832 848 | 304 748 | 5 003 414 097 |
| Financial liabilities | | | | |
| Customer accounts | 851 536 131 | 11 580 513 | 4 000 318 | 867 116 962 |
| Derivatives recognized at FVTPL | 524 700 | 139 480 | - | 664 180 |
| Central counterparty financial liabilities | 4 050 827 085 | - | 10 551 | 4 050 837 636 |
| Other financial liabilities | 8 312 622 | 131 528 | 3 | 8 444 153 |
| Total financial liabilities | 4 911 200 538 | 11 851 521 | 4 010 872 | 4 927 062 931 |

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

30. Risk management policies (continued)

| | Russian Federation | OECD countries | Other | December 31, 2019 Total |
|--|----------------------|--------------------|------------------|-------------------------|
| Financial assets | | | | |
| Cash and cash equivalents | 135 469 724 | 389 807 824 | 194 323 | 525 471 871 |
| Financial assets at FVTPL | 12 592 | 13 460 019 | - | 13 472 611 |
| Due from financial institutions | 48 445 455 | - | - | 48 445 455 |
| Central counterparty financial assets | 3 262 656 317 | - | 14 305 | 3 262 670 622 |
| Financial assets at FVTOCI | 104 997 678 | 37 465 848 | 2 587 232 | 145 050 758 |
| Other financial assets | 189 826 | 3 329 | 352 | 193 507 |
| Total financial assets | 3 551 771 592 | 440 737 020 | 2 796 212 | 3 995 304 824 |
| Financial liabilities | | | | |
| Customer accounts | 600 306 185 | 9 839 213 | 1 785 927 | 611 931 325 |
| Overnight bank loans | 49 229 140 | - | - | 49 229 140 |
| Derivatives recognized at FVTPL | 32 831 | - | - | 32 831 |
| Central counterparty financial liabilities | 3 262 670 078 | - | 544 | 3 262 670 622 |
| Other financial liabilities | 513 847 | 138 514 | 9 | 652 370 |
| Total financial liabilities | 3 912 752 081 | 9 977 727 | 1 786 480 | 3 924 516 288 |

As at December 31, 2020 the balances with OECD counterparties include the following balances with OECD companies of Russian groups:

- Cash and cash equivalents in the amount of RUB 64 419 758 thousand (December 31, 2019: RUB 58 010 338 thousand);
- Financial assets at fair value through profit or loss in the amount of RUB 18 312 016 thousand (December 31, 2019: RUB 13 418 522 thousand);
- Financial assets at fair value through other comprehensive income in the amount of RUB 53 963 017 thousand (December 31, 2019: RUB 37 465 848 thousand);
- Customer accounts in the amount of RUB 10 831 642 thousand (December 31, 2019: RUB 969 thousand).

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

With regard to the activities of a central counterparty 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.

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

30. Risk management policies (continued)

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, 2019: 150 bp) which is in line with the Management's expectations with regard to a reasonably possible change in interest rates.

| | December 31, 2020 | | December 31, 2019 | |
|--------------------------|-------------------|-------------|-------------------|-------------|
| | Net profit | Equity | Net profit | Equity |
| 150 bp parallel rise | (540 770) | (8 562 569) | (252 142) | (5 524 971) |
| 150 bp parallel decrease | 378 253 | 6 528 975 | 259 901 | 5 722 944 |

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 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.

NCC's exposure to currency risk is as follows:

| | RUB | USD | EUR | Other currencies | December 31, 2020 Total |
|--|----------------------|----------------------|--------------------|-------------------|-------------------------|
| Financial assets | | | | | |
| Cash and cash equivalents | 89 083 769 | 244 364 431 | 259 963 955 | 28 648 825 | 622 060 980 |
| Financial assets at FVTPL | - | 18 312 017 | 5 691 | - | 18 317 708 |
| Due from financial institutions | 91 037 194 | 49 613 489 | - | - | 140 650 683 |
| Central counterparty financial assets | 3 253 266 937 | 644 826 687 | 152 744 012 | - | 4 050 837 636 |
| Financial assets at FVTOCI | 96 466 678 | 44 974 001 | 29 836 793 | - | 171 277 472 |
| Other financial assets | 268 433 | - | - | - | 268 433 |
| Total financial assets | 3 530 123 011 | 1 002 090 625 | 442 550 451 | 28 648 825 | 5 003 412 912 |
| Financial liabilities | | | | | |
| Customer accounts | 137 399 967 | 475 032 228 | 226 041 330 | 28 643 437 | 867 116 962 |
| Central counterparty financial liabilities | 3 253 266 937 | 644 826 687 | 152 744 012 | - | 4 050 837 636 |
| Other financial liabilities | 8 310 810 | 3 739 | 128 408 | 1 196 | 8 444 153 |
| Total financial liabilities | 3 398 977 714 | 1 119 862 654 | 378 913 750 | 28 644 633 | 4 926 398 751 |
| Derivatives | (55 828 372) | 118 642 352 | (63 485 326) | 8 351 | (662 995) |
| Open position | 75 316 925 | 870 323 | 151 375 | 12 543 | |

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

30. Risk management policies (continued)

| | RUB | USD | EUR | Other currencies | December 31, 2019 Total |
|--|----------------------|--------------------|--------------------|------------------|-------------------------------|
| Financial assets | | | | | |
| Cash and cash equivalents | 77 207 586 | 101 569 628 | 342 512 013 | 4 182 644 | 525 471 871 |
| Financial assets at FVTPL | - | 13 418 522 | 4 111 | - | 13 422 633 |
| Due from financial institutions | - | 48 445 455 | - | - | 48 445 455 |
| Central counterparty financial assets | 2 606 997 173 | 600 329 803 | 55 343 646 | - | 3 262 670 622 |
| Financial assets at FVTOCI | 82 087 112 | 37 444 971 | 25 518 675 | - | 145 050 758 |
| Other financial assets | 193 507 | - | - | - | 193 507 |
| Total financial assets | 2 766 485 378 | 801 208 379 | 423 378 445 | 4 182 644 | 3 995 254 846 |
| Financial liabilities | | | | | |
| Customer accounts | 83 564 125 | 170 052 048 | 354 033 745 | 4 281 407 | 611 931 325 |
| Overnight bank loans | 23 704 101 | 25 525 039 | - | - | 49 229 140 |
| Central counterparty financial liabilities | 2 606 997 173 | 600 329 803 | 55 343 646 | - | 3 262 670 622 |
| Other financial liabilities | 513 477 | 1 452 | 137 033 | 408 | 652 370 |
| Total financial liabilities | 2 714 778 876 | 795 908 342 | 409 514 424 | 4 281 815 | 3 924 483 457 |
| Derivatives | 18 592 559 | (4 988 562) | (13 695 492) | 108 642 | 17 147 |
| Open position | 70 299 061 | 311 475 | 168 529 | 9 471 | |

Currency risk sensitivity. The following table details NCC's sensitivity to a 20% for USD and 20% for EUR (December 31, 2019: 20% for USD and 20% for EUR) 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, 2020 | | December 31, 2019 | |
|--------------------|-------------------|----------|-------------------|----------|
| | USD | EUR | USD | EUR |
| | 20% | 20% | 20% | 20% |
| Ruble appreciation | (139 252) | (24 220) | (49 836) | (26 965) |
| Ruble depreciation | 139 252 | 24 220 | 49 836 | 26 965 |

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.

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

30. 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 (OCP);
- 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.

An analysis of liquidity risk is presented in the following table, which is based on information provided to NCC's key management. As at December 31, 2020 and December 31, 2019 financial assets at FVTOCI, which are included into the CBR Lombard list, are presented within the category "Up to 1 month".

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

30. Risk management policies (continued)

| | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | More than 5 years | Maturity undefined | December 31, 2020 Total |
|--|----------------------|---------------------|--------------------|-------------------|-------------------|--------------------|----------------------------|
| Financial assets | | | | | | | |
| Cash and cash equivalents | 622 060 980 | - | - | - | - | - | 622 060 980 |
| Financial assets at FVTPL | 1 185 | - | 5 054 766 | 13 257 251 | - | 5 691 | 18 318 893 |
| Due from financial institutions | 82 939 428 | 34 175 008 | 23 536 247 | - | - | - | 140 650 683 |
| Central counterparty financial assets | 3 342 980 095 | 582 611 537 | 125 246 004 | - | - | - | 4 050 837 636 |
| Financial assets at FVTOCI | 120 433 143 | 2 782 306 | 2 817 799 | 25 320 079 | 19 924 145 | - | 171 277 472 |
| Other financial assets | 268 433 | - | - | - | - | - | 268 433 |
| Total financial assets | 4 168 683 264 | 619 568 851 | 156 654 816 | 38 577 330 | 19 924 145 | 5 691 | 5 003 414 097 |
| Financial liabilities | | | | | | | |
| Customer accounts | 867 116 962 | - | - | - | - | - | 867 116 962 |
| Derivatives recognized at FVTPL | 664 180 | - | - | - | - | - | 664 180 |
| Central counterparty financial liabilities | 3 342 980 095 | 582 611 537 | 125 246 004 | - | - | - | 4 050 837 636 |
| Other financial liabilities | 7 803 593 | 264 329 | 28 188 | 172 597 | 175 446 | - | 8 444 153 |
| Total financial liabilities | 4 218 564 830 | 582 875 866 | 125 274 192 | 172 597 | 175 446 | - | 4 927 062 931 |
| Liquidity gap | (49 881 566) | 36 692 985 | 31 380 624 | 38 404 733 | 19 748 699 | 5 691 | |
| Cumulative liquidity gap | (49 881 566) | (13 188 581) | 18 192 043 | 56 596 776 | 76 345 475 | 76 351 166 | |

| | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | More than 5 years | Maturity undefined | December 31, 2019 Total |
|--|----------------------|---------------------|--------------------|-------------------|-------------------|--------------------|----------------------------|
| Financial assets | | | | | | | |
| Cash and cash equivalents | 525 471 871 | - | - | - | - | - | 525 471 871 |
| Financial assets at FVTPL | 49 978 | - | 7 268 210 | 6 150 312 | - | 4 111 | 13 472 611 |
| Due from financial institutions | 10 045 681 | - | 38 399 774 | - | - | - | 48 445 455 |
| Central counterparty financial assets | 2 835 616 878 | 381 839 265 | 45 214 479 | - | - | - | 3 262 670 622 |
| Financial assets at FVTOCI | 101 470 760 | 545 477 | 7 012 492 | 17 239 147 | 18 782 882 | - | 145 050 758 |
| Other financial assets | 193 507 | - | - | - | - | - | 193 507 |
| Total financial assets | 3 472 848 675 | 382 384 742 | 97 894 955 | 23 389 459 | 18 782 882 | 4 111 | 3 995 304 824 |
| Financial liabilities | | | | | | | |
| Customer accounts | 611 931 325 | - | - | - | - | - | 611 931 325 |
| Overnight bank loans | 49 229 140 | - | - | - | - | - | 49 229 140 |
| Derivatives recognized at FVTPL | 32 831 | - | - | - | - | - | 32 831 |
| Central counterparty financial liabilities | 2 835 616 878 | 381 839 265 | 45 214 479 | - | - | - | 3 262 670 622 |
| Other financial liabilities | 28 362 | 270 948 | 106 178 | 117 091 | 129 791 | - | 652 370 |
| Total financial liabilities | 3 496 838 536 | 382 110 213 | 45 320 657 | 117 091 | 129 791 | - | 3 924 516 288 |
| Liquidity gap | (23 989 861) | 274 529 | 52 574 298 | 23 272 368 | 18 653 091 | 4 111 | |
| Cumulative liquidity gap | (23 989 861) | (23 715 332) | 28 858 966 | 52 131 334 | 70 784 425 | 70 788 536 | |

To cover any possible liquidity shortages NCC has available liquidity reserves such as CBR refinancing instruments including an overdraft on a correspondent account with CBR, Lombard borrowings, repo deals with a basket of securities and direct repo operations with banks with securities as collateral, interbank borrowings and operations on the SWAP market.

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

30. Risk management policies (continued)

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

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 regulatory authorities 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.

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

31. 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 30. 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 institutions. 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:

| | Year ended December 31, 2020 | | 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) | 49 436 181 | - | 49 436 181 | (49 436 181) | - | - |
| Central counterparty financial assets (repo transactions) | 4 047 661 790 | - | 4 047 661 790 | (4 047 661 790) | - | - |
| Central counterparty financial assets (currency transactions) | 3 175 846 | - | 3 175 846 | (2 659 979) | (515 867) | - |
| Derivatives recognized at FVTPL (assets) | 1 185 | - | 1 185 | (548) | - | 637 |
| Total financial assets | 4 100 275 002 | - | 4 100 275 002 | (4 099 758 498) | (515 867) | 637 |
| Financial liabilities | | | | | | |
| Central counterparty financial liabilities (repo transactions) | - | (4 047 661 790) | (4 047 661 790) | 4 047 661 790 | - | - |
| Central counterparty financial liabilities (currency transactions) | - | (3 175 846) | (3 175 846) | 2 659 979 | 515 867 | - |
| Derivatives recognized at FVTPL (liabilities) | - | (664 180) | (664 180) | 548 | 138 693 | (524 939) |
| Total financial liabilities | - | (4 051 501 816) | (4 051 501 816) | 4 050 322 317 | 654 560 | (524 939) |

Central Counterparty National Clearing Centre

Notes to the Financial Statements (continued)

(in thousands of Russian rubles, unless otherwise indicated)

31. Offsetting of financial instruments (continued)

| | Year ended December 31, 2019 | | Net amount presented in financial statements | Related amounts not set off in the statement of the financial position | | |
|--|---------------------------------|------------------------|---|---|-----------------------------|-----------------|
| | Gross claims | Gross liabilities | | Financial instruments | Cash collateral received | Net amount |
| Financial assets | | | | | | |
| Due from financial institutions (Reverse repo receivables from financial institutions) | 48 445 455 | - | 48 445 455 | (48 445 455) | - | - |
| Central counterparty financial assets (repo transactions) | 3 259 579 211 | - | 3 259 579 211 | (3 259 579 211) | - | - |
| Central counterparty financial assets (currency transactions) | 3 091 411 | - | 3 091 411 | (1 026 708) | (2 064 703) | - |
| Derivatives recognized at FVTPL (assets) | 49 978 | - | 49 978 | - | (579) | 49 399 |
| Total financial assets | 3 311 166 055 | - | 3 311 166 055 | (3 309 051 374) | (2 065 282) | 49 399 |
| Financial liabilities | | | | | | |
| Central counterparty financial liabilities (repo transactions) | - | (3 259 579 211) | (3 259 579 211) | 3 259 579 211 | - | - |
| Central counterparty financial liabilities (currency transactions) | - | (3 091 411) | (3 091 411) | 1 026 708 | 2 064 703 | - |
| Derivatives recognized at FVTPL (liabilities) | - | (32 831) | (32 831) | - | - | (32 831) |
| Total financial liabilities | - | (3 262 703 453) | (3 262 703 453) | 3 260 605 919 | 2 064 703 | (32 831) |