**MAJOR PERFORMANCE RESULTS**

**OF CJSC JSCB NATIONAL CLEARING CENTRE**

**FOR THE YEAR 2013**

**1.General information**

CJSC JSCB National Clearing Centre (hereinafter the Bank, NCC) was founded in 2005 pursuant to the resolution of the General Meeting of Founders and registered in the Interdistrict Federal Tax Service Office No. 50 for the City of Moscow on 30 May 2006 (Legal entity state registration certificate series 77 No. 010075586 of 30 May 2006, Primary State Registration Number – 1067711004481).

On 30 May 2006, the Bank was granted the Bank of Russia Credit Institution State Registration Certificate of No. 3466, and on 16 August 2006 – the Bank of Russia License for Russian rouble and foreign currency banking activities (without no right to attract deposits from physical persons) No. 3466 of 16 August 2006.

According to Federal Law No. 162-FZ. “On Amending Certain Legislative Acts of the Russian Federation following the Adoption of the Federal Law On the National Payment System" dated 27 June 2011; separate names of banking trades have been changed. In accordance with this, on 15 October 2012 the Bank obtained a new license for Russian rouble and foreign currency banking activities (without the right to attract deposits of cash resources from physical persons) No. 3466.

Besides, on 28 December 2012, NCC obtained the license to attract deposits and allocate precious metals.

In execution of the Federal Law "On Clearing and Clearing Activities" and in order to have an opportunity to carry out clearing activities from 1 January 2013, the Bank obtained the license on the performance of clearing activities No. 077-00003-000010 dated 18 December 2012.

NCC has also the following licenses:

1. License for encryption (cryptographic) tool maintenance, issued by the Federal Security Service of the Russian Federation Centre for licensing, certification and protecting national security information.

2. License for encryption services, issued by the Federal Security Service of the Russian Federation Centre for licensing, certification and protecting national security information.

3. License for encryption (cryptographic) tool distribution, issued by the Federal Security Service of the Russian Federation Centre for licensing, certification and protecting national security information.

**Full name of the bank:**

- in Russian – Акционерный Коммерческий Банк " Национальный Клиринговый Центр" (Закрытое акционерное общество) ("Aktsionerny Commerchesky Bank ''Natsionalnyi Kliringovyi Tsentr'" (Zakrytoe aktsionernoe obschestvo));

- in English – Bank “National Clearing Centre" Closed joint-Stock company.

**Short name of the Bank:**

- in Russian – ЗАО АКБ "Национальный Клиринговый Центр" (ZAO AKB "Natsionalnyi Kliringovyi Tsentr", CJSC JSCB National Clearing Centre).

**Place of business:**

13 Bolshoy Kislovsky Pereulok, Moscow

**Mailing address:**

13 Bolshoy Kislovsky Pereulok, Moscow, 125009

In the reporting period, pursuant to the resolution of the Executive Board of CJSC JSCB National Clearing Centre, the following interior divisions were operating:

* "Sredny Kislovsky" Additional Office, located: Bldg.8, 1/13 Sredny Kislovsky Lane, Moscow,
* "Spartakovsky" Additional Office, located: 12 Spartakovskaya Street, Moscow,
* "Vozdvizhenka" Additional Office, located: Bldg.1, 4/7 Vozdvizhenka Street, Moscow.

**Management bodies**

According to the Articles of the Association of CJSC JSCB National Clearing Centre, the management bodies are as follows:

* General Shareholders Meeting – the supreme management body;
* Supervisory Board – the management body performing overall administration of the Bank's activities; Supervisory Board members are elected by the General Shareholders Meeting until the next Annual General Shareholders Meeting;
* Chairperson of the Board (Chief Executive Officer) – the management body in charge of the current NCC's operations, is elected by the General Meeting of Shareholders for the time period set by the shareholders, but no more than five years;
* the Executive Board - (collective executive body) – management body in charge of the current NCC's operations; the board members are elected by the Supervisory Board; the term of each board member is set by the Supervisory Board but no more than five years.

The independent auditor of CJSC JSCB National Clearing Centre for the year 2013 in accordance with the sole shareholder's resolution is CJSC Ernst & Young Vneshaudit.

**2. Authorized capital and shareholders' structure**

**Structure of the property. Authorized capital.**

When CJSC JSCB National Clearing Centre was founded, the General Meeting of Founders approved the authorized capital of the Bank at 235,000 thousand roubles, divided into 235,000 registered ordinary shares with the par value of 1,000 roubles each.

During 2006-2012 the authorized capital of the Bank was increased from 235 million to 6.170 billion roubles via allocation of additional registered uncertified ordinary shares of CJSC JSCB National Clearing Centre.

In 2013 there was a significant rise of the Bank's capital (from 6.170 billion roubles to 15.7 billion roubles). Therefore Moscow Exchange Group proved its commitment to the strategy of the Bank's capitalization increase as one of the main too-big-to-fail infrastructural organizations of the financial market to improve its reliability and to conform to new regulation requirements. These requirements are related with the introduction of Basel III and the regulation of the Russian banking system as well as with the Bank’ recognition by Bank of Russia as a qualifying central counterparty.

**Shareholder structure**

As of 31 December 2013, CJSC JSCB National Clearing Centre shareholders' register contained one entry – Open Joint-Stock Company «Moscow Exchange MICEX-RTS».

During the reporting period CJSC JSCB National Clearing Centre kept the Register of the Shareholders by its own.

**3.Industry position of National Clearing Centre**

In 2013 National Clearing Centre focused its efforts on business development: clearing services and central counterparty functionality in accordance with the strategy of products' line expansion implemented by Moscow Exchange Group and meeting demands of the exchange market services in order to ensure a sustainable growth of business profitability of the Group. Based on a clear understanding of the NCC role in solving of the Group’s strategic goals, its main priority during the reporting period was the realization of projects and tasks aimed at achieving a quantitatively new level of all key aspects management of clearing activity and the activity of the CCP which eventually ensures the realization of strategic business tasks of the Bank.

Implementation of the requirements defined by the status of a qualifying central counterparty received by the Bank – the main project of NCC in 2013 – into the activity's practice was performed amid large scale changes in a regulatory environment. These changes were first of all linked with the introduction of Bank of Russia regulatory acts aimed at realizing of Basel III requirements, developing of the derivative regulatory system that directly influenced the necessity to improve the risk management system.

The international aspect of NCC's activity and, in the first place, within the European Association of Clearing Houses-Central Counterparties (EACH) drew attention of the regulator as well as the partners to the issues of harmonization of European and Russian regulation of CCPs activity and also of international standards related with the recognition of the qualification granted by Bank of Russia to the Russian Central Counterparty – NCC, within other jurisdictions to ensure the opportunity for a non-discriminatory participation of Russia in the international integration processes in the financial market.

The fact that NCC is a member of Moscow Exchange Group could not only minimize expenses due to the integration of certain management processes as well as could ease the task of creating complex exchange products containing clearing services, but it ensured conditions to maintain at a high level the formed communications system within the Group designed to create new products which contain centralized clearing services as a component. It is of a great importance for efficient functioning of NCC which business model is characterized by integration of clearing services into the unified technological trading and settlement cycle.

In 2014 NCC performed clearing activity in accordance with the requirements of Federal Law No. 7-FZ as of February 7, 2011 “On Clearing and Clearing Activity", with the legislation of the Russian Federation on banking and by-laws of the regulatory and supervision bodies of Russia.

The Bank rendered a full range of clearing services, performing clearing on trades concluded:

* with full pre-posted collateral (securities or cash control required for complete trade’s execution carried out before its conclusion) ;
* with partial pre-posted collateral ( control of a clearing member limit adequacy before trade’s conclusion);
* without pre-posted collateral (securities or cash control required for complete trade’s execution carried out after trade’s conclusion immediately before its execution).

When performing the functions of the central counterparty during the clearing in the currency, derivatives and stock markets NCC concluded trades with full or partial pre-posted collateral with each trading participant providing settlements with clearing members on all concluded buy/sell trades with foreign currencies, precious metals, securities and derivative financial instruments.

In 2013 the Bank performed the functions of a clearing organization in all the markets of the Group and in the market of other exchanges (Moscow Energy Exchange, OJSC, Saint-Petersburg Exchange, OJSC, Moscow International Commodity Exchange, OJSC).

 NCC clearing activity in on-exchange markets for 2013 formed the following structure of relations with exchanges providing integrity and continuity of a trading clearing cycle:



The most significant events of the past year included the implementation of the following large-scale projects and tasks:

**1. Bank of Russia granted CJSC JSCB National Clearing Center the status of a qualifying central counterparty.** It means that the management level of NCC complies with the state regulatory requirements and with the recognized in the industry international standards for an activity of exchange infrastructure. Besides, the qualification creates conditions to increase the efficiency of members’ activity in the market: Russian clearing members – credit institutions received an opportunity to cut back requirements to the capital regarding trades with NCC as well as in regard to the collateral depositing on the accounts opened with NCC.

**2. Start of clearing with partial collateral with T+2 settlements in the securities market of Moscow Exchange** that allows to decrease expenses of market members on operations funding, increase market’s liquidity, make a model of clients’ service less expensive, preserving all advantages of the market with the central counterparty – NCC that guarantees fulfillment of the obligations towards each fair clearing and trading member.

**3. Introduction of the clearing project on REPO transactions with the central counterparty** with gradual expansion of the range of securities serviced. This project made possible to create a full operating REPO market and decrease members’ risks due to the centralization of the risk management system assumed by the central counterparty.

**4. International rating agency Fitch Ratings upgraded NCC long-term default issuer rating** to a sovereign credit rating level of the Russian Federation – to “BBB" from “BBB-" with “Stable" outlook. According to the Fitch Ratings experts, NCC could withstand the defaults of its largest 40 counterparties without requiring capital support. This indicator of NCC’s financial stability is significantly higher than an analogue indicator defined by the Principles for Financial Markets Infrastructure of CPSS-IOSCO and Russian regulation requiring from the CCP to be prepared to absorb losses in case of default of two largest clearing members in extreme but acceptable market conditions.

**5. Development and introduction of the recovery plan for financial stability in accordance with the recommendations of Bank of Russia.** Development and introduction of the plan is an important element of the risk management system for NCC as a systematically significant credit institution. This document stipulates the measures, taken notice by Bank of Russia, on recovery of financial stability and maintenance of credit institution’s functions continuity in case of significant deterioration of its financial status with instruments and methods available to a credit organization. The plan defines several main scenarios each of them setting the conditions for implementation, risks, indicators and measures adequate to the scenario and conditions of its realization.

**6. Confirmation that the Quality management system introduced by NCC conforms to the requirements of the International Quality Management System Standard ISO 9001:2008.** The confirmation is based on the results of the external audit of this System, a final report of which stated the main conclusion for the Bank’s management on “evolutional development of the Quality management system of the Company with consistent improvement and adjustment of the management instruments".

**7. Significant increase in NCC capitalization** which made possible to rank it as the most capitalized central counterparty in the world. NCC’s owned capital during the reporting period increased from 13 bn 501 mln to 28 bn 839 mln RUB, i.e. by 113.61%. The increase in capitalization was achieved, among other sources, due to the significant (by 80.7%) in comparison with 2012 after tax income growth. For the reporting period it amounted to 6 bn 357 mln RUB. As a result the rate of return on capital as of year-end 2013 reached 22.04% - one of the highest indicators in Russian banking sphere.

**8. Introduction of centralized clearing in the market of precious metals.** At the first stage clearing was performed on trades with gold and silver in RUB. Thus, an efficient risk management system which guarantees fulfillment of obligations assumed by members working through the CCP was extended to one more segment of the financial market attractive to investors.

**9. Launch of clearing with the central counterparty on the segment of an organized market of standardized financial derivative instruments (DI).** It became a specific step towards realization of the decision made at G20 Pittsburg summit in 2009. According to it all the standardized over the counter derivatives shall be transferred to organized exchange platforms with the central counterparty taking part in clearing. The main advantage this market segment of the Group offers the members is an opportunity to shift risks to the central counterparty – NCC. With the Central Bank strengthening the requirements to banks, their mutual requirements increase. Thus the creation of an organized market segment of DI on the stock exchange is an important step to increase mutual trust between banks. Besides, the creation of an organized market segment of DI made it available for medium and small banks as there appeared an opportunity to work with each other through the CCP setting the limits not to each other, but to NCC, and therefore widening the members’ list of these trades.

The business projects realized in 2013 became for NCC evident proof of organizational, legal, technological readiness to perform full functionality of the central counterparty allocating all types of financial risks as well as proof of maturity and reliability of the risk management system of CCP. Realization of the business projects also allowed not only to increase the clients’ base, but widen it, ensuring the increase in volume of the services rendered to clearing members. As of December 31, 2013:

* number of clearing members totaled 840 institutions;
* volume of clearing participants' obligations determined on the basis of clearing results exceeded 1 021 trl RUBs.
* commissions received totaled 3 440 mln RUB which is by 1.3 times higher than for the analogical indicator in 2012.

**Main performance indicators of CJSC JSCB in different markets presented in the following diagrams:**







**4.Prospects for development**

Prospects of NCC development in 2013-2015 will be associated with the implementation of the Bank and Moscow Exchange Group’s strategic business infrastructure projects:

**I. NCC's participation in strategic business projects of the Group on clearing development**

1. Clearing consolidation in different markets (gradual introduction of unified collateral, unified margin and settlements for exchange, derivatives and securities markets).

This project of clearing modernization is one of the most priority projects of Moscow Exchange Group ensuring efficiency and quality of rendered clearing services and lowering risks on trades in the organized markets. Due to its immensity the initiative on clearing modernization is made up of several stages and stipulates realization of the following projects:

* Integration of accounts and cross-default management;
* Unified collateral pool, integrated post-trading risk management system;
* EIF (Exchange Information Fabric) project.

Introduction of unified clearing for different markets of the Group will enable clearing members to divide positions and collateral by clients, markets, instruments and simultaneously decrease the total members` costs as well as to optimize liquidity management, and specifically due to unified collateral pools.

 The unified collateral pool creation project for using a given member`s collateral on other markets aimed at increasing the market members` operational efficiency as it will make possible to transfer the collateral without any restrictions from one market to another in order to fulfill the collateral requirements. It will also enable to add a wider range of assets as collateral in all markets.

Creation of unified collateral pool includes development and realization of unified concept of guarantee funds in all the markets of Moscow Exchange Group. At the moment each market has its own guarantee fund concept with the respective mechanisms of losses allocation and operational procedures. A new guarantee funds` concept will be based on the scheme used in the best international practices, which allow taking into account market members` and Central Counterparty`s interests . Its main features include: fund fees depending on the risk volume of a given member, losses allocation restrictions and the use of the stated CCP’s capital in order to cover losses before resorting to collective funds. The integrated post trading risk management system will be able to unite all the necessary information on risks from all the markets in the unified system where different risk indicators will be considered and monitored with a minimum delay (intraday). It will be a basis for more dynamic and active risk management in Moscow Exchange.

Therefore EIF project plays an important role which will provide a unified access to risk`s data, collateral and positions in current trading/clearing systems.

**2. Transfer of the client`s obligations and collateral from one clearing member to another (segregation and portability)**

Segregation means an opportunity to divide positions and collateral at the client’s level. Such practice complies with the international standards (EMIR, CPSS-IOSCO) and ensures more reliable protection of clients’ funds and positions in case of a clearing member`s default. In case of default segregation also allows to transfer the client`s funds and positions from one clearing member to another without closing positions(portability). Segregation and portability shall be accompanied with possibility to integrate accounts and with cross-default procedures in order to provide NCC with greater operational efficiency and more effective risk management. Thus in case the debt of NCC` clearing member occurs in one market, NCC will have an opportunity to use collateral of such a client in other markets.

**3. Development of the membership system in clearing**

The project stipulates the following:

* Trading and clearing members statuses` division in the exchange market and in the precious metals market as well as in the securities market.
* Development of the clearing brokers institution.
* Development of single membership system (participation) in clearing in different markets of the Group.
* Development of the participation system of clearing members in covering of losses depending on their presence in different markets of the Group.

**Implementation of strategic business projects of the Group on NCC clearing development requires solution of the following major technological issues:**

1. Implementation of unified collateral pool in the securities, exchange, cash and derivatives markets of Moscow Exchange Group (forming of a “single purse").

“Single purse" for acceptance, accounting and use of collateral in different markets of the Group will provide the following opportunities:

* Clearing members will be able to deposit collateral in cash and securities in all the markets and the same accounts – to the “single purse";
* The way of collateral accounting will be unified in the exchange and securities markets based on ASTS+FORM;
* The obligations of a clearing member on trades concluded in different markets will be ensured and executed at a clearing member’s collateral accounted in the “single purse".

Clearing members will have an opportunity to “forward" risks between the exchange and derivative markets and between the securities/money markets.

2. Introduction of segregated accounting of clearing members’ funds and funds of their clients

As a result of such order implementation funds of a clearing member and its clients in the internal accounting of NCC and in the trading clearing systems in the securities, exchange and derivative markets of Moscow Exchange Group will be considered separately. All the funds of a clearing member will have a feature defining their origin:

* Clearing members’ funds;
* Funds of clients of clearing members;
* Funds transferred to a clearing member for trust management.

Upon a request of a clearing member NCC can ensure implementation of a certain internal accounting of client’s funds stipulated in the request. There will be a ban set on use of clients’ funds by a clearing member (including funds transferred to a clearing member for trust management) to fulfill its obligations under the trades concluded by a clearing member at its own expense or to fulfill other obligations of a clearing member towards NCC.

3. Transfer of the obligations and client’s collateral from one clearing member to another clearing member in case of default

In the securities, exchange and derivatives markets of Moscow Exchange Group there will be implemented an opportunity to transfer collateral, debt and assignment from one clearing member to the CCP under the obligations allowed for clearing to another clearing member under the terms and conditions stipulated by the Clearing Rules provided that there is consent of NCC to the clearing member to whom a debt and assignment are transferred as well as to the client at whose expense such obligations shall be fulfilled.

Implementation of possibility to transfer obligations/requirements and client’s collateral from one clearing member to another clearing member will provide the client with additional protection against the risks related to the risk of default of a clearing member rendering the services.

4. Implementation of possibility to perform cross default procedure among all the markets

In the securities, exchange and derivatives markets of Moscow Exchange Group possibility to perform cross default procedures will be implemented in order to:

* Clear off debts owned by a clearing member to NCC in any of the mentioned markets, the Bank will have an opportunity to use individual and collective clearing collateral of such a clearing member accounted in the other markets;
* Implement “closing positions mode" in the exchange and securities markets,

Unification of default management procedures in case of non-fulfillment of the obligations by a clearing member in any of the markers will enable:

* To transfer non-fulfilled obligations under the trades of a clearing member to the next day through swap/REPO trades based on collateral from the “single purse";
* To implement collateral from the “single purse" in case of debt unsettlement occurred in any of the markets.

5. Unification of payment methods to guarantee funds

Besides strengthening of the CCP’s risk management system, a unified concept of guarantee funds in the markets of the Group will simplify the system of clients adaptation due to use of consequent cross-market procedures and change for the international standards. Unification of payment methods to guarantee funds stipulates that clearing members will be able to deposit to all the guarantee funds in all the markets: roubles, foreign currency and securities.

6. Technologies` and documents` formation required for functioning of the clearing brokers’ institution, introduction of General and Individual categories of clearing members.

At the first stage only General clearing members will be able to perform functions of clearing brokers. Herewith there will be used a two level model of clearing service according to which four trades will be concluded in case of orders’ reconciliation placed by clients of clearing brokers:

* Between a client of a clearing broker – a seller and a seller’s clearing broker;
* Between a seller’s clearing broker and the central counterparty;
* Between a client of a clearing broker – a buyer and a buyer’s clearing broker;
* Between a buyer’s clearing broker and the central counterparty;

General clearing members will receive from NCC clearing services under their own trades, the trades concluded at their clients’ expense as well as under the trades concluded based on the order of other trading members. Individual clearing members will receive clearing services under their own trades only and under the trades concluded on behalf and/or at their clients’ expense. Therefore possibility to render services to trading members who are not clearing members and to clearing members, who are not trading members, will be implemented.

At the second stage it is planned to finalize the system of two level clearing membership, to increase requirements to General clearing members and to reduce their number.

**II. Implementation of settlements based on the clearing results in the securities market before trades are closed**

Implementation of settlements based on the clearing results in the securities market before trades are closed is an important project among the priority tasks which are aimed at improving current clearing services and client’s convenience.

Additional settlement session will be held from 16.00 to 17.00. During the session T+ trades settlements will be carried out including the first and the second part of REPO trades with the CCP as well as T0 trades and the first parts of Rb trades settlements with the arrived execution date and concluded before 16.00. It will also cover REPO trades without the CCP and negotiated trades mode trades, statements for which (ordinary and special) were placed and reconciled before 16.00. Additional settlement session will be carried out without trades stopping.

Additional settlement session will enable clearing members to withdraw securities after 17.00 received from T+ and REPO with the CCP trades and use them for settlement under other trades at the execution date of obligations’ fulfillment under T+ and REPO with the CCP trades (not the following day as before). Clearing members will also have the following possibilities:

* early execution of address T+ trades (respective parts of REPO with the CCP address trades) by placing ordinary, special or urgent statements for execution. Herewith special and urgent statements can include T+ and REPO with the CCP trades along with the other trades. Upon urgent statements for execution Non-profit organization CJSC National Settlement Depository will perform funds and securities settlements. This will enable members upon consent with the counterparty to shorten the settlement term and to withdraw funds and securities received from address T+ and REPO with the CCP trades starting from 10 a.m. on the day of execution;
* conclusion of REPO with the CCP trades with settlements’ code for the first part Y0 after 16.00 that will enable members to manage liquidity more efficiently due to time increase for conclusion of address and non-address REPO with the CCP trades.

**III. Development of clearing in the commodities markets**

In 2014 it is planned to further develop clearing on spot trades concluded with Moscow International Commodity Energy Exchange, OJSC, as well as spot and derivatives trades on commodity assets (primarily – grains) concluded with National Commodity Exchange.

In 2014 it is planned to implement clearing of deliverable futures contracts on grains, legumes and crops traded on National Commodity Exchange, NCC will perform the functions of a clearing institution and the central counterparty in this organized commodity market. Orders placing and trades conclusion will be possible only with partial collateral. The fulfillment of payment obligations for the commodities will be carried out through the NCC's clearing bank account in NPO CJSC NSD.

**IV. Development of the market for standardized DIs.**

The following measures shall be taken in 2014 in the market of standardized DIs:

1. Development and implementation of a new clearing model in order to attract new members – corporations as a source of primary demand for interest rate and exchange interest rates derivatives (approved by a new edition of the Clearing Rules):

* division of statuses of trading members and clearing members;
* implementation of clearing members categories;
* implementation of a clearing scheme conforming to the international practice.

2. Introduction of possibilities to perform obligations’ settlements on the instruments in Chinese Yuan and other foreign currencies in order to expand the range of available contracts – opening of NCC clearing accounts, acceptance of foreign currencies to collateral.

3. Implementation of non-address mode (pool) for Overnight Index Swap trades as a means of liquidity concentration.

4. Development of schemes and implementation of clearing for FLEX currency options.

5. Continuation of cooperation with NSD under the “collateral management" project within integration to other infrastructural components of the Group.

**V. Development of the precious metals market**

In order to further develop the precious metals market Moscow Exchange Group intends to continue increase the number of members as well as to improve post- trading services.

The main directions of NCC’s activity concerning development of precious metals trades in 2014 are as follows:

* expansion of the number of counterparties under impersonal metal accounts contracts and general agreements on general terms of precious metals sale trades;
* internal technologies` and business processes` optimization under precious metals trades including operational liquidity management of precious metals on impersonal metal accounts and in the vault;
* cooperation with Russian refining institutions on issues of concluding and executing contracts on productions of small precious metals bars.

Demand for small gold and silver bars is increasing from credit institutions – NCC’s clients. To meet this demand it is planned to introduce changes to the internal normative documents of NCC regulating trades orders with precious metals as well as working out and concluding of respective contracts with the institutions performing refining. Production of the first lot of small bars is scheduled for 1st half of 2014. Standard precious metals bars owned by NCC will be used as the raw materials.

**VI. NCC strategic goals**

NCC sets the following strategic goals in improving of the CCP ‘s quality management and in complying with the regulator’s requirements:

* to take a set of measures to maintain quality management of NCC at the level of Bank of Russia requirements specified by the regulator to a qualifying central counterparty, this status was granted to NCC by Bank of Russia in 2013;
* to maintain the international credit rating, NCC assigned in 2013, at the level not lower than a country’s one;
* to make targeted efforts to solve the issues concerning the access of foreign clearing members to the Russian Exchange market.

Implementation of a number of strategic goals set by the Bank will to a large extent depend on changes in the regulatory environment beyond the national legislation boarders. The practice of using new EU legislation in 2013 surfaced a number of issues connected to the trades of European members with foreign central counterparties from non-EU states as well as with the Russian central counterparty – NCC.

In order to ensure efficient integration of the Russian market it is necessary to undertake a number of efforts to harmonize foreign, particularly, European legislation and the international performance standards. NCC being a full member of EACH, will aim to play a pro-active role in setting and solving the issues on legislation harmonization and plans to focus its efforts on this direction during the reporting year using different possible communication channels including the channel of the mentioned European association.

Therefore, from a legal point of view, NCC finds reasonable the approach which would enable European members to cooperate with the Russian CCP directly and would enable European banks to apply the Basel requirements set for qualifying CCPs, to realize a goal aimed at:

* reaching mutual agreements between the Russian regulator and European authorities to set comparability of Russian and European legislation/the international performance standards;
* recognizing by European regulators the qualification granted by the Russian regulator without direct applying by the Russian CCP to foreign regulators, including European –ESMA, to get from them any additional qualification.

NCC will focus its efforts in the field of international cooperation on developing of this approach which will secure to Russia the role of a full partner in the world financial system.

**VII. NCC tasks on development and optimization of its own trades**

These tasks are stipulated, on the one hand, by the status of a qualifying central counterparty requiring fulfillment of a number of firm regulatory requirements to active trades, and on the other hand – by a qualitative change of clearing services as a result of large-scale business projects implementation.

The main efforts of Treasury Division within centralized management of Moscow Exchange Group’s assets and liabilities in 2014 will be focused on further improvement of assets management. The necessity of that is [primarily](http://www.multitran.ru/c/m.exe?t=31137_1_2&s1=%E2%20%EF%E5%F0%E2%F3%FE%20%EE%F7%E5%F0%E5%E4%FC) connected with the change in the funds profile deposited by clearing members after implementation of trades with partial depositing in the securities market. Besides, changes making possible for clearing members to deposit different assets (foreign currency assets, securities, precious metals) as collateral for transactions of rouble instruments are expected to be introduced that will also result in the change of the liabilities’ profile. Improvement of the assets management system in the contest of a changing liabilities’ base will become a natural element of transition to the unified collateral in all the markets where NCC is the central counterparty.

The change in the liabilities’ profile (primarily decline in the share of the rouble collateral) along with restrictions of investment activity applied to NCC as the central counterparty by the internal risks management system and the regulator – Bank of Russia will require change of the strategy and quantitative ratio of investments into the financial instruments in order to get interest income. The significant attention will be paid to keep an appropriate ratio of risk and profitability, good standing of the counterparties.

Another important task of the Treasury Division in 2014 will be development of a default management system which shall stipulate the procedures of close-out netting, positions transferring in case of technical defaults and to define sources of refinancing assets of deals which were accepted for clearing.

In order to expand refinancing sources REPO trades with clearing members and with Bank of Russia will be widely used.

The Treasury Division will continue in 2014 flexible adjustment of assets management based on the changes of exchange instruments, clearing terms and settlements on them preserving the target function of getting interest income with credit, market and other risks are at the optimal level.

**Main (priority) activities**

**5.1. Clearing on the foreign exchange and the precious metals market**

The foreign exchange and the precious metals market of the Group is a modern exchange market that meets all necessary legal standards and advanced technological requirements. Trading in Russian currency and the world's major currencies is concentrated on this market. Trading in precious metals also develops on this market, on the condition of the use of unified technologies of the exchange and clearing service. NCC carries out clearing on the FX market and the market of precious metals on spot trades and swap trades, concluded with the full [preliminary](http://www.multitran.ru/c/m.exe?t=2611_1_2&s1=%EF%F0%E5%E4%E2%E0%F0%E8%F2%E5%EB%FC%ED%FB%E9) collateral and the partial [preliminary](http://www.multitran.ru/c/m.exe?t=2611_1_2&s1=%EF%F0%E5%E4%E2%E0%F0%E8%F2%E5%EB%FC%ED%FB%E9) collateral. Cash resources in Russian roubles, US dollars, euro and Chinese yuans, as well as precious metals (gold and silver) are accepted as the clearing collateral. Trading on the foreign exchange market and the market of precious metals is carried out both in the anonymous and in the negotiation modes.

The full range of trades is settled with the participation of NCC as a CCP, which significantly reduces the participants’ risks and eliminates the necessity to define mutual limits.

NCC carries out the clearing on trades on the foreign exchange and the precious metals market where settlements can be made:

* at the clearing members' expense;
* at the expense of the clients of clearing members;
* at the expense of funds in trust management of clearing members.

 National Clearing Centre carries out the clearing on the FX market with the partial collateral for the following instruments:

| **No.** | **Instrument description** | **Time of execution** |
| --- | --- | --- |
|  | **US dollars for Russian roubles:** |  |
|  | Buy-sell trades USDRUB\_TOD | T[[1]](#footnote-1) |
|  | Buy-sell trades USDRUB\_TOM | T + 1 |
|  | Buy-sell trades (non-systemic only) USDRUB\_ LTV | from T+2 to T+366 |
|  | Swap trades USD\_TODTOM | T / T+1 |
|  | Swap trades USD\_TOMSPT | T+1 / T+2 |
|  | Swap trades USD\_TOM1W | T+1 / T+8 |
|  | Swap trades USD\_TOM2W | T+1 / T+15 |
|  | Swap trades USD\_TOM1M | T+1 / T+1 month |
|  | Swap trades USD\_TOM2M | T+1 / T+2 months |
|  | Swap trades USD\_TOM3M | T+1 / T+3 months |
|  | Swap trades USD\_TOM6M | T+1 / T+6 months |
|  | Swap trades USD\_TOM9M | T+1 / T+9 months |
|  | Swap trades USD\_TOM1Y | T+1 / T+12 months |
|  | **Euro for Russian roubles:** |  |
|  | Buy-sell trades EURRUB\_TOD | T |
|  | Buy-sell trades EURRUB\_TOM | T + 1 |
|  | Buy-sell trades (non-systemic only) EURRUB\_ LTV | from T+2 to T+366 |
|  | Swap trades EUR\_TODTOM | T / T+1 |
|  | Swap trades EUR\_TOMSPT | T+1 / T+2 |
|  | Swap trades EUR\_TOM1W | T+1 / T+8 |
|  | Swap trades EUR\_TOM2W | T+1 / T+15 |
|  | Swap trades EUR\_TOM1M | T+1 / T+1 month |
|  | Swap trades EUR\_TOM2M | T+1 / T+2 months |
|  | Swap trades EUR\_TOM3M | T+1 / T+3 months |
|  | Swap trades EUR\_TOM6M | T+1 / T+6 months |
|  | Swap trades EUR\_TOM9M | T+1 / T+9 months |
|  | Swap trades EUR\_TOM1Y | T+1 / T+12 months |
|  | **Chinese yuans for Russian roubles** |  |
|  | Buy-sell trades CNYRUB\_TOD | T |
|  | Buy-sell trades CNYRUB\_TOM | T + 1 |
|  | Buy-sell trades (non-systemic only) CNYRUB\_ LTV | from T+2 to T+184 |
|  | Swap trades CNY\_TODTOM | T / T+1 |
|  | Swap trades CNY\_TOMSPT | T+1 / T+2 |
|  | Swap trades CNY\_TOM1W | T+1 / T+8 |
|  | Swap trades CNY\_TOM2W | T+1 / T+15 |
|  | Swap trades CNY\_TOM1M | T+1 / T+1 month |
|  | Swap trades CNY\_TOM2M | T+1 / T+2 months |
|  | Swap trades CNY\_TOM3M | T+1 / T+3 months |
|  | Swap trades CNY\_TOM6M | T+1 / T+6 months |
|  | **Euro for US dollars** |  |
|  | Buy-sell trades EURUSD\_TOD | T |
|  | Buy-sell trades EURUSD\_TOM | T+1 |
|  | Swap trades EURUSD\_TODTOM | T / T+1 |
|  | Bi-currency basket (this is an instrument, when two trades are concluded to buy or sell funds, in US dollars for Russian roubles, and euros for Russian roubles in the shares of 0.55 and 0.45 respectively, for Russian roubles) BKTRUB\_TOM | T+1 |

During the reporting period, National Clearing Centre carried out the clearing in the FX market with the full collateral for the following instruments:

| **No.** | **Instrument description** | **Time of execution** |
| --- | --- | --- |
| 1. | Buy-sell trades of Ukrainian hryvnas for Russian roubles UAHRUB\_TOD | T |
| 2. | Buy-sell trades of Belarusian roubles for Russian roubles BYRRUB\_TOD | T |
| 3. | Buy-sell trades of Kazakhstani tenge for Russian roubles KZTRUB\_TOD | T |

During the reporting period, National Clearing Centre carried out the clearing on the precious metals market with the partial collateral for the following instruments:

| **No.** | **Instrument description** | **Time of execution** |
| --- | --- | --- |
|  | Gold for Russian roubles:  |  |
|  | Buy-sell trades (non-systemic only) GLDRUB\_TOD | T[[2]](#footnote-2) |
|  | Buy-sell trades GLDRUB\_TOM | T + 1 |
|  | Buy-sell trades (non-systemic only) GLDRUB\_ LTV | from T+2 to T+184 |
|  | Swap trades GLD\_TODTOM | T / T+1 |
|  | Swap trades GLD\_TOMSPT | T+1 / T+2 |
|  | Swap trades GLD\_TOM1W | T+1 / T+8 |
|  | Swap trades GLD\_TOM1M | T+1 / T+1 month |
|  | Swap trades GLD\_TOM6M | T+1 / T+6 months |
|  | Silver for Russian roubles: |  |
|  | Buy-sell trades (non-systemic only) SLVRUB\_TOD | T |
|  | Buy-sell trades trades SLVRUB\_TOM | T + 1 |
|  | Buy-sell trades (non-systemic only) SLVRUB\_ LTV | from T+2 to T+184 |
|  | Swap trades SLV\_TODTOM | T / T+1 |
|  | Swap trades SLV\_TOMSPT | T+1 / T+2 |
|  | Swap trades SLV\_TOM1W | T+1 / T+8 |
|  | Swap trades SLV\_TOM1M | T+1 / T+1 month |
|  | Swap trades SLV\_TOM6M | T+1 / T+6 months |

In 2013, NCC realized several important projects aimed at improving the efficiency and reliability of clearing services on the FX market and the market of precious metals:

**1. The launch of centralized clearing on the trades with precious metals for Russian roubles on the FX and precious metals market of the Group.**

This project was realized on the regulatory-technological basis of the FX market for the following purposes:

* to increase the number of products, offered to the market participants by the Moscow Exchange Group;
* to organize a new segment of exchange market for participants —the market of precious metals, which has the potential to become the market of high liquidity ;
* to create on the Russian market a system of settlements in precious metals (Loco Moscow).

For the purposes to provide to the market participants convenient and qualitative clearing services on the FX and precious metals market, the unified clearing and unified risk management were implemented:

* NCC is a central counterparty on trades.
* Joint clearing collateral and single position on roubles are used.
* Joint system of margining is used, based on the portfolio approach to risk assessment.
* General criteria are used for the assessment of credit reliability of clearing members.
* Joint settlements are carried out in Russian roubles.
* General principles are used to resolve situations related with default on trades’ obligations.
* General principles of default management are used.

On the stage 1, the clearing is carried out on the trades with gold and silver for Russian roubles:

* SPOT trades: GLD/RUB, SLV/RUB with the time of execution TOD (T+0), TOM (T+1);
* LTV trades (non-systemic only): GLD/RUB, SLV/RUB with the time of execution from 1 to 184 days;
* SWAP trades: GLD/RUB, SLV/RUB - TOD/TOM and TOM/SPT;
* SWAP trades: GLD/RUB, SLV/RUB with the time of execution for part 1 – TOM, for part 2 - 1 week; 1 and 6 months.

Execution of obligations for precious metals supply is carried out on the basis of outcome, by the transfer to depersonalized metal accounts, which will be open by NCC to clearing members.

Thus, the system of risk management, successfully used on the FX market and guaranteeing the execution of obligations to fair clearing members, has been extended to one more new promising segment of the financial market.

**2. The launch of centralized trades clearing for Chinese yuan with partial collateral.**

In order to provide further development of international cooperation with Asia-Pacific region (APR) and to increase efficiency of settlement between China and Russia in the national currencies of two countries, the project was realized on the introduction of the clearing service for trades in currency pair ‘yuan/rouble’, on the condition of the partial collateral.

Participants of the FX market are provided with the opportunity to conclude buy/sell trades on the currency pair ‘yuan/rouble’, with the date of execution TOD or TOM, swap trades TOD-TOM and TOM-SPT, swap trades with the date of execution of obligations for part 1—TOM, for part 2—1.2 weeks; 1,2,3,6 months and non-systemic buy/sell trades with the date of execution of obligations of up to 184 days.

For the currency pair ‘yuan/rouble’ (CNY/RUB), the same risk parameters are used as for the currency pairs USD/RUB and EUR/RUB, in full compliance with the policy of the existing risk management system of the FX market. The funds in yuan can be used to guarantee obligations of Clearing Members not only in yuans, but also in US dollars, euro and Russian roubles.

Thus, the realization of this project allowed the participants of the FX market of Moscow Exchange Group to conclude trades with the use of Chinese yuan on the same principles as with US dollars and euro. This increased substantially the convenience and effectiveness of settlements in yuans and/or roubles for financial and trade operations among the organizations of Russia, China and other APR states.

The introduction of new, effective technologies of clearing service and the instruments attractive to investors contributed to the increase of attractiveness of the FX market of the Group and positively impacted the NCC activities in this segment of the market. The commission fee for the clearing service on the FX market amounted to 1,040,104 thousand roubles in 2013.

**5.2. Clearing on the securities market**

 National Clearing Centre carries out clearing activities on the securities market as the central counterparty since November 1, 2011. Settlements on clearing on the securities market are carried out by the non-bank credit organization Closed Joint-Stock Company National Settlement Depository (hereinafter - NCO CJSC NSD). Trading onthe securities market is carried out both in anonymous and negotiation modes.

NCC carries out the clearing on securities market for trades, on which settlements can be made:

* at the clearing members' expense;
* at the expense of the clients of clearing members;
* at the expense of funds in trust management of clearing members.

 National Clearing Centre carries out the clearing on the securities market on trades with the following instruments:

1. Clearing on buy-sell trades with the partial initial collateral:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Settlement code** |  **Order type** | **Trade type** | **Execution date** | **Clearing type** | **Settlement order** | **Resolution in case of default**  |
| **Y0, Y1, Y2** | Y0, Y1 – off order bookY2 – order book or off order book | Buy / sell of shares and bonds | N settlement day after the Date of the conclusion of trade (n = 0, 1, 2) | With central counterparty, with the use of netting  | Automatically in clearing pool (together with REPO trades, with CCP at 17:00-17:30) | Transfer to the next settlement day of the execution of obligations by REPO trades with CCP, or with two buy-sell trades  |

1. Clearing on REPO trades with the central counterparty with the full or partial (possible only for the part 1 of REPO) initial collateral:

|  |  |  |
| --- | --- | --- |
| **REPO codes** | **Settlement specifics for part 1 of REPO**  | **Settlement specifics for part 2 of REPO** |
| **Y0/Y1** | assets supply at 17:00 of the day T | assets supply at 17:00 of the day T[[3]](#footnote-3)+1 |
| **T0/Y1** | immediate assets supply | assets supply at 17:00 of the day T+1 |
| **T0/Y2** | immediate assets supply | assets supply at 17:00 of the day T+2 |
| **Y1/Y2** | assets supply at 17:00 of the day T+1 | assets supply at 17:00 of the day T+2 |
| **Y0/Y2** | assets supply at 17:00 of the day T | assets supply at 17:00 of the day T+2 |

1. Clearing on trades with the full initial collateral and without the initial collateral (‘old’ trades):

| **Settlement code** | **Trades** | **Execution date** | **Collateral control procedure** | **Clearing** | **Settlement** |
| --- | --- | --- | --- | --- | --- |
| T0 |  buy-sell | T+0 | At the order submission | Multilateral, fully collateralized | After trading |
| B0-B30 |  buy-sell | T+0 – T+30 | At the submission of execution report | Without initial collateral | After or in the course of trading (depending on the type of execution report) |
| K0 |  buy-sell | T+0 | At the conclusion of trade | Multilateral, fully collateralized | After trading |
| Z0 |  buy-sell | T+0 | At the order submission | Simple, fully collateralized | In the course of trading |
| Rb |  Repo | Part 1 - T+0;Part 2 – T+k, where k is the term of repo trade | Part 1—at the order submission; Part 2-- at the submission of execution report | Part1-- multilateral, fully collateralized; Part 2-- without initial collateral | Part 1—after trading; Part 2-- after or in the course of trading (depending on the type of execution report) |
| Z0 | Repo | Part 1 - T+0;Part 2– T+k, k – term of repo trade | Part 1—at the order submission; Part 2-- at the submission of execution report | Part 1 – Simple, fully collateralized; Part 2-- without initial collateral | Part 1—in the course of trading;Part 2-- after or in the course of trading (depending on the type of execution report) |
| S0-S2 | Repo | Part 1 - T+0 – T+2;Part 2 – T+0+k – T+2+k, K – term of repo trade | Each part—at the submission of execution report | Each part—without initial collateral | Each part-- after or in the course of trading (depending on the type of execution report) |

**In 2013 a number of strategic business-projects of the Group was implemented, with the involvement of NCC**

1. The launch of clearing with the partial collateral with T+2 mode settlements on the securities market of the Moscow Exchange.

Prior to the realization of the clearing project in T+2 mode, NCC conducted centralized clearing with the full collateral and clearing without the preliminary collateral (without service of central counterparty). In all cases, settlements were carried out on the principle ‘delivery against payment’.

NCC continues carrying out on securities market the mentioned types of clearing for specific instruments, which is caused by their technological specificities:

* on the condition of the full collateral, the buy-sell trades of securities are concluded, with the involvement of central counterparty (apart from the trades of distribution and repurchase of securities), with the execution on the date of conclusion;
* trades without the initial collateral are concluded between trading members without involvement of the central counterparty. These trades are executed in a multilateral clearing order together with the trades, concluded with the central counterparty and with the trades REPO with the Bank of Russia. In the course of clearing session, NCC calculates net requirements and net obligations in respect of every clearing member for all specified trades. Settlements on the final obligations/requirements of the clearing members on specified trades are also conducted jointly.

From March 2013, NCC began realization on securities market of CJSC ‘MICEX Stock Exchange ’ of the clearing with the partial preliminary collateral on the trades, concluded at the exchange trading in the mode of ‘T+2’. The clearing with the partial preliminary collateral on the securities market of the Group allows the following:

* + to enlarge, both qualitatively and quantitatively, the spectrum of traded instruments on the securities market;
	+ to reduce costs of market members on transactions’ funding;
	+ to increase market liquidity;
	+ to make customer services less costly.

In the trading mode with the partial collateral, all trades are concluded with the NCC, as with the central counterparty guaranteeing execution of obligations for every fair clearing member. In order to get access to the clearing with the partial collateral, a clearing member must make a payment to the Fund for Financial Stability (FFS). The access to the clearing with the partial collateral depends on the category of clearing member:

|  |
| --- |
| **The condition for a category assigning** |
| Payment to FFS, mln. roubles | 5 or 10  | 5 or10  | no |
|  Owned funds in accordance with the accounting report, mln. roubles | over 180  | less than 180  | not important |
| Registered TCS+ | Yes | yes | not important |
| **Category assigned:** | **B1** | **B2** | **C** |

Russian roubles, foreign currency and securities are accepted as the collateral. The conclusion of trades in the T+2 mode is only possible with the securities, included in the clearing trading list for trades in T+2 mode. The realization of clearing in T+2 mode allowed the multiple reduction of the cost of assets, which should be transferred in advance, before the trades conclusion, to the trading and/or clearing account of clearing members, with, the guarantee of the central counterparty on the execution of trades is kept. At the same time, the effectiveness and attractiveness of the securities market of CJSC ‘MICEX Stock Exchange’ increased.

2. The introduction of the clearing project on REPO trades with central counterparty with the gradual enlargement of the serviced securities’ variety .

The principal differences of the new REPO market with the involvement of central counterparty from the inter-dealer REPO market, which functioned earlier, are well seen on the following diagram:

Inter-Dealer REPO REPO with central counterparty

  

This project allowed to create the fully-functioning REPO market and to reduce participants’ risks due to the centralization of the risks management system and CCP assumption of risks. In the framework of this project, the opportunity has been implemented for the conclusion and clearing of REPO trades with the following execution time:

* Part 1—on the day of the conclusion of the trade, or the next settlement day from the day of the trade conclusion;
* Part 2 – on the following or the second settlement day from the day of conclusion of the trade;

**Advantages of REPO market with central counterparty:**

* + Conclusion of trades, including Part 2 of REPO, with the partial preliminary collateral.
	+ No risk trade, not requiring the calculation of limits to other members (the execution of obligations to each fair party is guaranteed by central counterparty).
	+ Rapid and convenient conclusion of trades on the standard conditions, including in the order book.
	+ Opportunity to monitor the market rates of REPO in the real time.

The conclusion of the specified REPO trades is possible only with securities, included in the clearing list for T+2 trades.

The introduction of new, effective technologies of clearing service and the instruments attractive to investors contributed to the increase of attractiveness of the securities market of the Group and positively impacted the NCC activities in this segment of the market. In particular, the commission fee for the clearing service on the FX market amounted to 2,367,641 thousand roubles in 2013

**5.3. Derivatives market clearing**

National Clearing Centre has been carrying out clearing activities on the derivatives market of the Group since December 2012. Since that time, NCC has also carried out clearing on trades with derivative financial instruments, concluded at OJSC ‘Moscow Energy Exchange’ and OJSC ‘Saint Petersburg Exchange’. Moscow Exchange Group is the leading exchange for DI trading in the CIS and Eastern Europe and is in the top-10 global derivatives exchanges.

NCC carries out clearing on the derivatives market on futures and options, the basic assets of which are indexes, equities, exchange rates, interest rates and commodities.

The 2012 transfer of derivatives market clearing of Moscow Exchange to NCC and its subsequent integration, during the report period, with the securities and FX market, allowed to provide the following:

* trading volume increase due to the growth of limits to the clearing organization and central counterparty, and the use of unified technologies and the principle of single agreement on clearing services;
* creation of preconditions for the future consolidation , on the basis of NCC, of the clearing on FX, stock and derivatives markets of the Moscow Exchange Group.

Since October 2013, NCC has carried out clearing on trades with futures on the equities of the five leading German issuers, concluded at the derivatives market in the framework of cooperation with Deutsche Börse.

Indexes, equities, exchange rates, interest rates and commodities can be used as basic assets for the DIs:

|  |  |  |
| --- | --- | --- |
| **Securities segment:** | **Money segment:** | **Commodities segment:** |
| **Futures for:*** most liquid equities of Russian issuers
* equities of five leading issuers in Germany
* RTS and MICEX indexes , segment indexes
* RTSVX (volatility index)
* BRICS indexes

**Options for:*** 12 most liquid equities
* RTS and MICEX indexes
 | **Futures for:*** Short-term rates: Overnight MosPrime, 3 months MosPrime
* Currency pairs: USD/RUB, EUR/USD, EUR/RUB, AUD/USD, GBP/USD
* 2-, 4-, 6- and 10-year FLBs

**Options for:*** Currencies: USD/RUB, EUR/USD
 | **Futures for:*** Oil products: Diesel, Urals, Brent
* Precious metals: Gold, Silver, Platinum and Palladium
* Energy indexes
* Sugar
* Wheat, maize, soya, cotton
* Copper

**Options for:*** Gold, Silver, Platinum, Brent oil
 |

Trading on the derivatives market is carried out both in the anonymous and in the negotiation modes.

NCC carries out clearing on DIs, concluded:

* at the clearing members' expense;
* at the expense of the clients of clearing members;
* at the expense of funds in trust management of clearing members.

Clearing and trades settlements (including settlements on variation margin) occur with the involvement of NCC as of the central counterparty. This decreases the members’ risks and eliminates the necessity to introduce limits to each other. NCO CJSC NSD functions as settlement depository and settlement organization.

The accepted collateral consists of Russian roubles as well as foreign currency and securities, included in the list approved by the decision of the Clearing Centre. This list is formed in accordance with the approved methodology of selection and assessment of the foreign currency and securities, accepted as collateral. In 2013, due to the integration of the FX and derivatives market, clearing members were allowed to use foreign currency (US dollars) without limits for the individual clearing collateral (the maximum share of currency, accepted as an individual clearing collateral, was fixed at 100%).

The improvement of clearing services and the introduction of instruments, attractive to investors, contributed to the increase of attractiveness of the derivatives market of Moscow Exchange Group and positively impacted the NCC performances in this segment of the market. The commission, obtained by the Bank for clearing services on the FX market, amounted in 2013 to 31,286 thousand roubles.

**5.4 Commodities market clearing**

In 2013, NCC began to implement the clearing on trades concluded in the Section of oil and oil products of Open Joint Stock Company "Moscow International Commodity and Energy Exchange" (hereinafter - OJSC "MICEE"). The trades in the section of oil and oil products of MICEE include the trades involving the supply of a wide range of oil products, particularly petrol of various grades, summer and winter diesel fuels of different grades, marine fuel, residual oil, bitumen, etc.

At the first stage, NCC carries out the ordinary clearing without the participation of central counterparty. The settlements on the results of clearing are carried out both directly between counterparties and through the usage of NCC's clearing account in NPO CJSC NSD, which allows reducing credit risks of clearing members.

**5.5. Standardized DI market clearing**

In 2013, a new, strategically important segment was created in the Group—the market of standardized DI, which carries out clearing with the function of central counterparty.

On the first stage, clearing is conducted on this marker for the following financial instruments: interest rate swap (IRS, OIS), foreign exchange swap (FX), interest rate-foreign exchange swap (XCCY). Several major banks have already joined the market of standardized DI. Settlements are conducted with the use of clearing accounts of NCC, opened at NSD. Clearing members make individual and collective clearing collateral both in Russian roubles and foreign currency. On the first stage, the acceptance of Russian roubles and US dollars was realized in ICC. The substantial work was done for the preparation of the launch of clearing with CCP on the standardized DI market. In particular, it included the development of the risk model and clearing rules, technological, legal and organizational readiness and the introduction of new requirements of banking legislation, in the part of the accounting procedures for DI trades.

**6.Proprietary Trading Operations on Financial Markets**

In 2013 NCC performed trading operations on financial markets under the significant influence of the following factors and events:

* NCC received a status of a qualifying central counterparty pursuant to the requirements of Bank of Russia Guides No. 2919-U dated 03.12.2012;
* Starting of clearing activities on the REPO market with central counterparty, as well as in T+ mode on the stock market;
* Substantial increase of an authorized capital.

NCC performed operations on financial markets pursuing the following aims:

* Provide liquidity management which ensures complete fulfillment of NCC's obligations as a central counterparty;
* Perform default-management functions when clearing participants fail to fulfill their obligations;
* Receive income from operations on the interbank market, stock market, and conversion operations.

In accordance with Federal Law No. 7-FZ dated 07.02.2011 "On Clearing and Clearing activities" in 2013 NCC changed the method of settlements with clearing participants using clearing accounts opened in NKO CJSC “National Settlement Depository". This fact, together with the increase of number of markets, where NCC functions as central counterparty, resulted in a considerable increase of quantity of assets redistribution transactions within the framework of liquidity management ensuring complete fulfillment of the NCC’s obligations on clearing.

NCC’s first operations on the stock market as central counterparty with the partial collateral of participants’ positions (modes T+2 and REPO with CCP) in 2013 caused the necessity for default-management operations to be carried out, which implies the closure of non-collateralized positions of clearing participants, carrying-over the outstanding commitments to a later settlement date and liquidation netting in cases when banking licenses of banks – trading participants are revoked.

Within the framework of default-management, a number of operations were made in 2013:

|  |  |  |
| --- | --- | --- |
| Operations | Quantity of Operations | Volume, million units |
| Foreign Exchange Market |
| *Positions transfer (SWAP)* |  |  |
| USD | 261 | 1601.811 |
| EUR | 74 | 121.024 |
| CNY | 3 | 2.044 |
| *Marginal requirements regulation*  |  |  |
| RUB | 5 | 98.695 |
| *Positions closure* |  |  |
| USD | 3 | 18.500 |
| EUR | 3 | 55.400 |
| Stock Market |
| *Positions transfer (REPO)* |  |  |
| RUB | 150 | 1473.621 |
| *Positions closure* |  |  |
| RUB | 13 | 0.841 |
| Derivatives Market |
| *Positions closure* |  |  |
| RUB | 1 | 173.220 |
| TOTAL |  |  |
| USD | 264 | 1620.311 |
| EUR | 77 | 176.424 |
| CNY | 3 | 2.044 |
| RUB | 168 | 1746.377 |

Obtaining a status of a qualifying CCP stipulated the necessity to change the assets structure, in particular, to change the characteristics of securities portfolio in accordance with the requirements of the Bank of Russia on issuer’s quality and payback period of (offer) securities. Herewith, the clearing on new markets and the increase of authorized capital resulted in the growth of passive base, which lead to alterations in the assets profile, as well as the securities portfolio increase.

Resulted from the above-mentioned factors, the passive base of NCC has gone through the changes as follows:

01.01.2013

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Source | RUB, million | USD, million | EUR, million | Equivalent, RUB |
| Foreign Exchange Market | 26,495.706 | 1,910.668 | 1,410.900 | 141,286.361 |
| Derivatives Market | 33,977.533 | 139.084 |  | 38,201.884 |
| T+, REPO with CCP |  |  |  |  |
| Equity capital | 13,167.983 |  |  | 13,167.983 |
| Total | 73,641.222 | 2,049.752 | 1,410.900 | 192,656.228 |

01.01.2014

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Source | RUB, million | USD, million | EUR, million | Equivalent, RUB |
| Foreign Exchange Market | 27,268.564 | 3,563.778 | 1,576.714 | 214,812.848 |
| Derivatives Market | 23,648.312 | 365.621 |  | 35,614.781 |
| T+, REPO with CCP | 23,644.813 | 82.196 |  | 26,335.013 |
| Equity capital | 28,755.467 |  |  | 28,755.467 |
| Total | 103,317.156 | 4,011.595 | 1,576.714 | 305,518.109 |

With the growth of passives, the main efforts were directed to increasing the earning assets, primarily the securities portfolio. During the stated year Rouble Portfolio of NCC rose at 22,222 million roubles in the market value (at 64%) and amounted to 56,883 million roubles as of 01.01.2014. The securities portfolio denominated in foreign currency remained nearly the same and amounted to 306 million US dollars as of 01.01.2014. The volume of reverse REPOs with Eurobonds made up in annual average 15 million US dollars.

Taking into account the requirements for qualification of the central counterparty, the basic principle of NCC is the reliability of placing funds in the context of counterparties and financial instruments. Thus, the emphasis during the formation of assets and, in particular, the securities portfolio, were made on minimization of credit, market and other risks.

The limit of the credit risk was achieved primarily due to allocation of a significant part of the assets to the financial instruments of counterparties and issuers with a high credit rating of international rating agencies (Standard & Poor`s, Moody`s Investors Service, Fitch Ratings) (see the Diagram in paragraph 7, unit III “Credit Risks Management").

The limit of the market risk was observed due to the maintenance of low assets duration:

* the terms of deposits and currency swap deals did not exceed three months;
* the duration of the securities portfolio did not exceed 1 year (as of 01.01.2014 – 0.79 year).

Besides the portfolio increase, the liabilities increase stipulated a growing number of trades on the interbank market. That way, the total average annual volume of placed deposits in roubles and SWAP trades have grown more than twice and made up nearly 13 billion roubles. From now on, the number of trades on financial markets is expected to grow due to the occurrence of new exchange products (markets), where NCC shall be a central counterparty. In particular, the trades are expected to be held with physical and unallocated metals within the framework of clearing collateral on precious metals trading launched on Moscow Exchange at the end of 2013. Also, with the new exchange products (markets) taken for Clearing Services, NCC shall expand the range of financial instruments and the number of trades on cash flow management when managing liquidity of Moscow Exchange Group companies.

NCC’s liabilities available for providing as collateral as of 01.01.2014 amounted to 66,910 million roubles (in rouble equivalent), including:

* bonds of Russian issuers in Russian roubles – 56,883.328 million roubles;
* bonds of Russian issuers in US dollars – 7.569 million US dollars;
* bonds issued by non-resident of the Russian Federation legal bodies outside the borders of the Russian Federation in US dollars – 298.794 million US dollars.

Together with the above-listed assets, available assets (taken as collateral by the Bank of Russia) made up 61,094 million roubles (in rouble equivalent), including:

* bonds of Russian issuers in Russian roubles – 56,872.163 million roubles;
* bonds of Russian issuers in US dollars – 7.569 million US dollars;
* bonds issued by non-resident of the Russian Federation legal bodies outside the borders of the Russian Federation in US dollars – 121.436 million US dollars.

As of 01.01.2014, NCC did not own collateral assets, as well as assets restricted for use as collateral.

**7.** **Risk Management, Including Measures Aimed at Providing Quality Management of NCC as CCP**

1. **Risk management framework compliance with the regulatory requirements and international standards**

NCC, functioning as an assurer of financial stability on markets of the Moscow Exchange Group, performs its activities using an up-to-date risk management framework (RMF) complying with the international standards, it provides clearing services to the participants allowing to manage efficiently their funds using Moscow Exchange markets. The main risks NCC faces are economic (credit, market and liquidity) risks, operational, legal and reputational risks.

Economic risk management frameworkin NCC as a central counterparty on the Moscow Exchange Group markets consists of the requirements applied to clearing participants and collateral to cover potential losses, if the participants fail to fulfill their obligations on trades with CCP; collateral management system, as well as default management procedures.

The main risk management instruments used in NCC as a central counterparty and clearing organization are shown in the following scheme:

|  |  |
| --- | --- |
| Participation Requirements  | * Clearing services access requirements
* Evaluation and monitoring of clearing participants’ financial conditions
 |
| **Limits system** | * Limits for participants
* Limits for currency/price fluctuations
* Concentration limits
 |
| **Settlement system** | * DVP/PVP
* Monitoring of settlement organization’ financial conditions
 |
| **Collateral** | * Collateral pre-posting
* Limitation of assets acceptable as collateral
* At least daily mark-to-market
* Default funds formation
 |
| **Default Management** | * Positions’ roll-on or liquidation
* Default waterfall formation for potential losses cover (collateral, default funds, NCC’s own capital)
 |

NCC, being responsible for the timely fulfillment of clearing obligations, carries out a conservative risk management policy.

To ensure the stability of its activities, NCC applies risk management methods corresponding to the requirements set by Russian regulatory bodies, standards of the Basel Committee for Banking Supervision, as well as international standards of Committee on Payment and Settlement Systems of International Settlements Bank and Technical Committee of International Organization of Securities Commissions (CPSS-IOSCO) for financial market infrastructures.

In the reporting year NCC carried out its activities and made all the efforts to develop the risk management framework in accordance with the requirements of the Bank of Russia Guides No. 2919-U “On Management Quality Assessment of Banking Organization Acting as a Central Counterparty", further – Guides No. 2919-U. In October 2013 the Bank of Russia recognized NCC’s management quality as satisfactory and by that NCC was assigned the status of a qualifying central counterparty.

Obtaining the status was a major event not only for NCC and Moscow Exchange Group, but for the Russian financial market in general. Thus, in accordance with acting regulations of the Bank of Russia, when calculating the capital adequacy ratio (N1) Russian banks are now able to use reduced risk weights for exposures to qualifying central counterparties. Reducing the burden of the regulation on capital requirements for trades with NCC as a qualifying central counterparty is a direct reflection of international initiatives in the area of defining capital adequacy of banking organizations (Basel III). Reduced risk weights applied to the transactions with a qualifying central counterparty are an important driver for stimulating clearing via CCP, which facilitates the reduction of systematic risks and increases the greater transparency on the Russian financial market.

In accordance with the requirements of Federal Law No. 7-FZ dated 07.02.2011 "On Clearing and Clearing activities" NCC created the Committee on Risks which reports to the Supervisory Board. Pursuant to the requirements of the mentioned Law, at least half of the members of Committee on Risks must be clearing participants. The Committee is authorized to address NCC’s internal policies and rules on risk management, clearing and business continuity.

**II. Risk management of Clearing Organization and Central Counterparty.**

Development of risk management framework of NCC in 2013 was primarily aimed at ensuring NCC’s financial stability and resilience as a clearing organization and a central counterparty, and was carried out in the following main directions:

* To maintain sufficient financial resources for settlements under normal and extreme market conditions;
* To develop default management procedure protecting NCC from potential losses in case of clearing participants’ default;
* To improve risk assessment models, required for providing by NCC new clearing products (project T+2, REPO with CCP, implementation of clearing of standardized derivatives, establishment of precious metals trading);
* To implement the measures ensuring that current activities of NCC are compliant with the Bank of Russia requirements for qualifying central counterparties in accordance with requirements of Guides No. 2919-U;
* To provide informational transparency which enables clearing participants to assess their risks [adequately](http://www.multitran.ru/c/m.exe?t=253800_1_2&s1=%E0%E4%E5%EA%E2%E0%F2%ED%EE) and helps supervisory authorities to control their activities more efficiently.

**Margining of Clearing Participants’ Trades**

NCC uses various models for defining requirements to the amount of individual collateral depending on the specific market. The general characteristics of the models are given in the table:

|  |
| --- |
| Characteristics of Margining Models on the Moscow Exchange Group Markets |
| Market | **Margining Model Type** | **Margining Model** | **Observation Period** | **Holding Period** | **Parameters revision frequency** |
| Foreign Exchange Market | **Empiric** | **Scenario analysis (up/down)** | **2 years** | **2 days** | **Once in six months** |
| Stock Market | **Empiric** | **Scenario analysis(up/down)** | **2 years** | **2 days** | **Once in six months** |
| Derivatives Market | **Empiric** | **Scenario analysis** **( 23 scenarios for prices; up/down for volatility)** | **1 year** | **1 day** | **Once in six months** |
| Standardized DI Market | **Empiric** | **Scenario analysis** **(shift/twist/butterfly for interest rates; up/down for exchange rates)** | **3 years** | **3 days** | **Once in six months** |

Models used for margining of clearing participants’ trades on the stock market and the standardized DI market were implemented in 2013 when T+2 project and standardized DI clearing project were launched.

Depending on the specific market different types of assets are accepted as collateral:

|  |
| --- |
| Types of assets accepted as collateral on the Moscow Exchange Group markets |
| Market | **Foreign Currency** | **Precious Metals** | **Government Bonds of the RF** | **Corporate Bonds** | **Equities** |
| Foreign Exchange Market | **+** | **+** |  |  |  |
| Stock Market | **+** |  | **+** | **+** | **+** |
| Derivatives Market | **+** |  |  |  | **+** |
| Standardized DI Market | **+** |  |  |  |  |

In 2013 the following most significant changes were made, expanding the possibilities for trading and clearing participants in the process of [making trades](http://www.multitran.ru/c/m.exe?t=2684128_1_2&s1=%E1%E8%F0%E6%E5%E2%E0%FF%20%F1%E4%E5%EB%EA%E0)  with NCC as a central counterparty:

* on the foreign exchange market – expansion of assets accepted as collateral by adding precious metals and new foreign currency (Chinese renminbi);
* on the securities market – partial collateralization was implemented, that makes it possible for clearing participants to use a wide range of securities, as well as foreign currency, as collateral;
* on the derivatives market – the limit of 100% was set for collateral in foreign currency (previously the concentration limit was set at 50%), enabling clearing participants to manage collateral more efficiently.

**NCC Default Funds and Own Capital Used in Case of Clearing Participants’ Default**

The default waterfall mechanism on the markets of the Moscow Exchange Group includes:

* cash and non-cash collateral pre-posted by clearing participants which can be used for fulfillment of their trade obligations;
* default collective (guarantee) funds funded by contributions made by market participants and the clearing organization;
* NCC’s own capital.

According to the international standards for clearing organizations-CCPs, the level of risk coverage by default funds is considered to be sufficient provided that these funds are enough to cover, within short period of time, maximum risk arising from at least one or two default positions. NCC maintains default funds sufficient to cover the default of any 2 or 3 clearing members with the largest exposures, which exceeds the requirements of the international recommendations.

In order to cover the risks on the FX and precious metals markets, the Risk Covering Fund was established. The contribution amount for each member is 80 thousand US dollars. As of the 1st of January, 2014, the Default fund amounted to 18.72 million US dollars.

The participation in the Risk Covering Fund is optional. The contribution to the Risk Covering Fund allows clearing members to increase the single limit without depositing additional collateral. The Fund participants’ limits were revised on a quarterly basis.

The FX and precious metals Risk Covering Fund makes it possible for its members to reduce their margin requirements for trades within their stated limits covered by the Fund. At the same time, NCC assumes risks associated with possible inadequate FX risk coverage in case of mass defaults.

In order to provide additional defense for fair clearing members, their contributions to the Risk Covering Fund are only used in cases when the total debt of defaulting clearing member to NCC exceeds the maximum amount set by Clearing Rules of foreign exchange and precious metals market, i.e. 18 million US dollars.

To cover risks assumed by NCC a Guarantee Fund on the derivatives market with contributions from clearing members is formed. Contributions by fair participants are used only in cases when the amount of defaulting clearing member’s debt owed to NCC exceeds 1.5 billion roubles. The contribution to the Guarantee Fund depends on the risk’s estimates made by NCC in respect to each participant. As of 01.01.2014 the Fund made up 1.2 billion roubles. The existence of Guarantee Fund, as a supplement to the collateral posted, decreases the CCP’s risks when a clearing participant fails to fulfill his obligations.

On the stock market (including REPO with CCP) risks of NCC in transactions with the partial collateral, involving CCP, were covered, besides the individual clearing collateral, by CCP’s own capital amounting 1 billion roubles, and also by the Financial Stability Fund, formed of the deposits made by clearing participants permitted to participate in the trading with the partial collateral. Participants’ deposit amount depends on the terms of their REPO transactions: at the expense of a participant only – 5 million roubles, at the expense of a participant and his clients – 10 million roubles. The Financial Stability Fund as of January 1st, 2014 made up 1.75 billion roubles.

On the standardized derivatives market all the clearing participants, shall make contribution to the Guarantee Fund in the amount of 10 million roubles. The size of the Financial Stability Fund as of January 1, 2014 made up 90 million roubles. NCC’s capital used for covering this market’s risks has liability limit of 50 million US dollars (10 million US dollars of which are used before contributions of non-defaulting clearing members).

The order of applying to the guarantee funds and NCC’s funds in case of default of clearing participant on different markets is shown below:

|  |  |  |  |
| --- | --- | --- | --- |
| **Foreign Exchange Market** | **Securities Market** | **Derivatives Market** | **Standardized DI Market** |
| NCC’s Capital | NCC’s Capital | NCC’s Capital | Transfer of a defaulter’s position to other members |
| NCC Capital |
| Risk Covering Fund | Financial Stability Fund | Guarantee Fund | Guarantee Fund |
| NCC’s Capital | NCC’s Capital | NCC’s Capital | NCC’s Capital |
| Defaulter’s Contribution to Fund | Defaulter’s Contribution to Fund | Defaulter’s Contribution to Fund | Defaulter’s Contribution to Fund |
| Margins | Margins | Margins | Margins |

**Default-management Procedures**

The default-management procedures used on the FX market for the counterparty replacement implies arranging additional clearing sessions of type 1 and 2 with the defaulting clearing member. A defaulting clearing participant is a clearing participant who failed to fulfill his obligations fully in time.

The additional session of type 1 is held when the clearing participant fails to fulfill his margin call at a set date. During the stated additional session NCC carries out buy-and-sell trades of foreign currency/ precious metals, including swap trades with the defaulting clearing member. The terms of these trades are set by NCC in a way ensuring that they will result in the increase of a single limit of the given clearing participant (value calculated by NCC in roubles for each clearing participant, limiting risks on trades with partial collateral).

The additional session of type 2 (swap trades) is held with a defaulting clearing member in cases of:

* Obligations are not fulfilled partially or completely by the clearing participant;
* Commissions or margins are not paid by a clearing participant by the time set and the clearing participant posted collateral in foreign currencies/precious metals acceptable as collateral.

Swap trades rules are arranged by NCC so that if the clearing participant has non-fulfilled liabilities on the first part of swap transaction, certain requirements will arise for this participant opposite to the mentioned non-fulfilled obligations in the amount not exceeding the clearing participant’s collateral.

The default-management techniques on the stock market connected with a counterparty replacement are in general similar to those used on the FX market. In case of margin call nonfulfillment in due time, NCC and the defaulting clearing member can conclude buy or sell trades of securities, including REPO trades. The terms of these trades are arranged by NCC so that to ensure that they result in the increase of single limit of the given clearing participant (value calculated by NCC in roubles for each clearing participant, limiting risks on trades with partial collateral).

In case a clearing participant partially or completely fails to fulfill its obligations, NCC executes its obligations in cash / securities towards a non-defaulting clearing member as follows:

* Enters into direct/reverse REPO agreement (paired buy/sell trades) with a clearing participant – donor;
* Enters into direct/reverse REPO agreement (paired buy/sell trades) with a non-defaulting clearing member to roll-over the settlement date of obligations.

The terms of REPO trades are arranged by NCC so that if the clearing participant has non-fulfilled liabilities on the first leg, certain requirements will arise for this participant opposite to the non-fulfilled obligations in the amount not exceeding the clearing participant’s collateral .

On the derivatives market in case of nonfulfillment of margin call by a clearing participant by the date set, NCC on behalf of an unfair clearing member can make transactions leading to the margin call fulfillment. If there is no possibility to make trades, NCC carries out compulsory transfer of the defaulting clearing member’s positions to the non-defaulting ones at prices limiting NCC’s losses at the amount set in clearing rules.

In Standard section of the stock market, in case a clearing participant fails to fulfill its obligations in cash or securities delivery at a settlement date, NCC:

* Enters into direct/reverse REPO agreement (paired buy/sell trades) with a clearing participant – donor;
* Enters into direct/reverse REPO agreement (paired buy/sell trades) with a non-defaulting clearing member to move the due date of the fulfillment of obligations.

On the standardized DI market, if a clearing participant fails to fulfill his margin call at a set date, NCC on behalf of defaulting clearing member can make trades which:

* Liquidate a defaulting clearing member’s positions;
* Hedge NCC’s exposure of unbalanced positions resulting from nonfulfillment of obligations by a defaulting clearing member.

If the positions cannot be fully liquidated, NCC arranges an auction to sell remaining parts of the positions. In case the auction is declared void, NCC transfers the defaulting clearing member’s positions to the non-defaulting ones at prices limiting NCC’s losses at the amount set in clearing rules.

**Monitoring of Clearing Participants’ Financial Condition**

NCC uses internal rating system as an efficient instrument for monitoring financial condition of clearing participants and counterparties in investment activities. Formalized internal ratings are used to respond promptly if the financial condition of clearing participants and counterparties deteriorates, as well as to set limits for investment operations and to create adequate provisions to cover possible losses arisen from risk-bearing transactions.

Internal ratings are calculated in accordance with the methodology developed by NCC and including the following elements shown in the table:



NCC in order to define an internal rating uses financial reports and other relevant information on clearing participants and counterparties - the information that is substantial to assess the level of risks assumed by NCC to latters. The internal rating is an aggregated result of scoring of financial and non-financial indicators and can be corrected based on the results of the expert review (information on the ownership structure, counterparty’s business development, market positions of a clearing participant on separate market segments, price movements of their stocks, and other relevant information is considered).

As of 01.01.2014 NCC’s internal ratings covered 780 organizations. The classification of rated clearing participants and counterparties by type as of 01.01.2014 is presented in the table:

|  |  |
| --- | --- |
| Resident-Banks | 69% |
| Non-bank Credit Organizations | 1% |
| Financial Institutions | 28% |
| Non-Resident Banks | 2% |

**III. Investment Risks**

NCC according to its special status and type of activities adhere to the conservative asset management policy while investing redundant funds. The basic risk management techniques applied to investment activities include:

* managing assets and liabilities portfolio;
* monitoring the financial condition of counterparties;
* limit setting;
* creating reserve funds to cover probable losses;
* avoiding certain risks.

**Credit risk management**

The criteria for the counterparties and instruments appropriate for the investment activities as well as tenor limits considering the market liquidity of the instruments were approved by the NCC’s Supervisory Board.

The basic principles of NCC’s investment policy provide a sufficient return on assets with a moderate risk level, as it is shown in the tables:

******

|  |
| --- |
| **Tenor limits**  |
| Maximum maturity | 1.5 year |
| Repo trades with bonds | Less than 1/2 of a year |
| Trades Currency Swap | Less than 1/2 of a year |
|  | Usage of owner’s sources | Usage of clearing liabilities (client accounts) |
| Interbank deposits | Less than 1 year | Less than 1/2 of a year |
| Government bonds | Less than 1.5 year | Less than 1/2 of a year |
| Corporate bonds and subfederal loan bonds | Less than 1.5 year | Less than 1.5 year |

The most important element in controlling credit risks, arisen from investment of Bank’s funds, is setting limits on treasury operations. The current system of limits guarantees limiting, ricks assumed by NCC, at the level conforms to assured implementation of the regulatory requirements set by the Bank of Russia and NCC’s internal policies. The limit system organization is presented in the table below:



As of January1, 2014, the structure of NCC’s credit risk bearing assets was dominated by funds on correspondent accounts of credit institutions, mainly in major foreign banks, as well as with the most reliable Russian banks (60.7% of assets). The largest portion of assets was held on correspondent accounts with JP Morgan Chase Bank and its subsidiaries because this bank is the NCC’s settlement bank on the FX market of the Group. As of January 1, 2014, the NCC’s loan portfolio was mainly consist of interbank credits/deposits and comprised 9.0% of assets. Investments in Russian government bonds and corporate bonds, as of January 1, 2014, comprised 29.9% of assets. Information related to the distribution of the (whole) bond portfolio by the issuer’s industry is shown in the diagram:



In 2013, the credit quality of NCC’s assets was maintained at a high level. The classification of assets by international credit ratings of S&P is characterized by the following data:

|  |  |  |
| --- | --- | --- |
|  | **1 January 2014** | **1 January 2013** |
| assets with the rating not worse than "A" | 41.4% | 37.4% |
| assets with the rating worse than "A" and no worse than "BBB-" | 51.2% | 52.0% |

As of January 1, 2014, almost all NCC’s assets subject to provisioning are classified in the first (highest) category of quality, the size of provisions amounted to RUB 33.9 million or 0.12% of the NCC's capital. Due to the high quality of assets, capital adequacy ratio (N1) as of 1 January 2014 was 21.69% with the regulatory minimum being 10%, which clearly proves NCC’s financial stability.

**Liquidity risk management**

The conservative asset management policy contributed to the maintenance of the liquidity at the level sufficient to fulfill the payment of NCC’s obligations as a CCP. The liquidity management is aimed at ensuring the NCC's ability to perform its obligations timely and in full, under normal and extreme market conditions without suffering unacceptable losses and risk of damaging business reputation.

During 2013, the regulatory liquidity ratios for credit institutions were significantly exceeded by NCC, as shown in the table below:

**The regulatory liquidity ratios**

|  |  |  |  |
| --- | --- | --- | --- |
| **Liquidity ratios** | **Limits set by the Bank of Russia** | **Minimal value for the period** | **Ratio at the reporting date** |
|  |  |  | **2014** | **2013** |
| H2 | More than 15% | 72.40% | 90.38% | 86.10% |
| HЗ | More than 50% | 94.72% | 110.55% | 106.08% |
| H4 | Less than 120% | 0.00% | 0.73% | 0.00% |

Treasury is responsible for the real-time management of NCC’s current liquidity position, while the risk management department regularly performs a prospective analysis of NCC’s liquidity. The liquidity analysis is conducted monthly and includes the analysis of liquidity gaps and liquidity ratios. A detailed liquidity analysis is based on internal models using statistical models for calculating maximum cash outflows.

The stable portion of client’s cash collateral is calculated using stochastic approaches similar to VaR methods. Seasonal and economic factors (trading days before holidays, initial margin requirements, etc.) are also taken into account while estimating cash outflows.

A monthly liquidity ratios monitoring shows the excess of liquidity in 2013 for all periods, the minimum liquidity ratio did not fall below 11% for the period "less than 30 days" as shown in the following chart:

**Liquidity ratios (internal estimations)**

**as of January 1, 2014**



**Market risk management**

In order to mitigate the market risk (FX, interest rate and price risk), NCC gives preference to investments in financial instruments with fixed interest rates and in securities which are less volatile, more liquid and profitable.

The market risk is assessed with the use of a supervisory method and the Bank's internal models based on VaR. For internal needs NCC uses VaR calculated for the securities portfolio with a confidence level of 99% and a holding period of 10 days. The observation period depends on the data quality and includes no less than 1 year. The amount of an accepted market risk in 2013 was estimated as not-threatening NCC’s financial stability. The market risk was characterized with the following figures, shown in the diagram:

**Market risk structure in % of own capital**

(estimation based on Bank’s internal models)



NCC’s total open position in the foreign currency is maintained at a minimum level in accordance with NCC’s internal policy to avoid FX risk in investment activities. As of January 1, 2014 open FX position in the US dollars comprised 0.0993% of NCC’s capital, in euros – 0.0064%.

The price risk was estimated for individual securities (government bonds, sub-federal bonds, corporate bonds) and for the total portfolio using a variance-covariance method (parameter method).

The sensitivity of the securities portfolio present value to interest rates (PV01), the Sharpe ratio and the securities portfolio duration were also estimated and analyzed.

During 2013, the NCC's securities portfolio remained highly liquid, profitable and stable in the current market conditions, and was consistent with the requirements set by the NCC’s criteria of formation of investment assets and investment declaration.

The interest rate risk monitoring includes market interest rates monitoring and evaluation of assets and liabilities sensitivity to interest rates. The interest rate risk is assessed through the gap analysis and duration while interest rate volatilities applied to these gaps are estimated separately for each time band using the historic data of Mosprime, LIBOR and swap rates.

The main contributors to the interest rate risk are Bank’s interest rate exposures (difference between assets and liabilities, which are sensitive to interest rates) with maturities more than 1 day. Instruments with a maturity ‘on demand and 1 day" (balances on the correspondent accounts, deposits “overnight", issues of bonds, reaching the maturity date, swaps) despite their significant amount, make a small contribution to the interest rate risk because of their low duration.

**Stress Testing**

In 2013 the stress testing was an integral part of the NCC’s risk management procedures and was conducted to assess the Bank’s ability to withstand extreme market conditions. According to the NCC’s internal policies stress tests are applied to:

* risks related to investment activities (credit, FX, price, interest rate risk and liquidity risk);
* specific risks of NCC as a CCP.

Stress testing was performed using historical shocks and hypothetical scenarios. Stress tests included the analysis of assets and liabilities sensitivity to specific risk factors (exchange rates, interest rates, price volatility) as well as the general influence assessment of the "worst" combination of risk factors on NCC’s financial condition.

The system of the stress testing of NCC’s financial stability is depicted below:



The results of NCC’s stress tests as of January 1, 2014 are shown in the table below. Expected level of the regulatory capital adequacy (H1stress) in a critical scenario of stress test reached 16.97% with the specified standard level 10 % and the real value of the ratio - 21.69%.

**Stress testing results as of January 1, 2014**

|  |  |
| --- | --- |
| General conclusion on stress testing results | Passed successfully |
| Total equity (capital) adequacy level *H1stress* | Observed |
| Threat to operations smoothness | None |
| General financial stability | Preserved |

The results of stress tests, conducted in 2013, prove the NCC’s ability to maintain general financial stability without threats to continuity of operations, defined through the sufficiency of risk covering sources within the framework of modeled shocks and their combinations.

In 2013 the stress testing methodology, which is used to define the NCC’s financial resources adequacy for covering possible risks, was updated to absorb new markets and new products cleared via NCC as a central counterparty.

**NCC’s International Credit Rating**

In 2013 Fitch Ratings upgraded NCC’s long-term rating of issuer’s default. This upgrading was driven by the growth in NCC’s systemic significance and high, according to the Fitch’s opinion, probability of the governmental support for the Bank, and the raise of its financial stability as a central counterparty.

According to the Fitch Ratings’ estimation, the NCC’s credit risk is moderate, as the amount of financial resources at the Bank’s disposal is sufficient to cover potential losses arising from counterparties’ defaults. Daily margining with a possibility to regulate the requirements to collateral in case of significant market volatility also reduces risks. Among the factors, proving the raise of NCC’s financial stability, Fitch Ratings mentioned the increase of the NCC’s own capital due to the increase of its core capital by 9 billion roubles in October 2013.

An international credit rating assigned to NCC corresponds with the level of international ratings of leading foreign clearing houses – central counterparties as shown in the diagram:



**NCC’s Compliance with the International Quality Management System**

In 2012,theQuality management system was implemented in NCC according to the requirements of standard ISO 9001:2008. In order to demonstrate compliance, the organization which has implemented QMS according to the requirements of standard ISO 9001:2008, should be independently audited from time to time no less than once a year. Such audit was conducted in autumn 2013. According to the results of successful audit conduction and confirmation of the compliance with the requirements of international standard ISO 9001:2008 the main conclusion to the managing board was as follows: “Evolutionary development of company’s QMS with consecutive management tools improvement and adaptation".

NCC annually reports to the Supervisory Board on the results of quality management system certification according to ISO 9001:2008, which is aimed at improving corporate management quality and is performed also in terms of measures taken to maintain the status of qualifying CCP.

The annual activities program implementation, designed to sustain the level of the Quality management system compliance with the requirements of Standard ISO 9001:2008, is an important additional element of risk management system, aimed at increasing the maturity and central counterparty management quality.

**Operational risk management**

The provisioning of NCC’s business continuity, including an uninterrupted operation of its own systems and processes, was one of the main priorities in the Bank’s activity as an infrastructural institution playing an important stabilizing role in the financial market.

This task to a greater extend was solved by an effective performance of Bank’s operational risks management system, which is provided by its multilevel structure, transparency of functions and managing bodies, relevant departments, which corresponds fully to the best world management experiences.

The structure of risk management system comprises Supervisory Board, individual and collegiate executive boards, operational risk management and company’s employees as well. Supervisory Board determines the key principles of operational risks management, including the integration of risk management system into managerial decision making process and the involvement of all the personnel into risk management process. Executive boards provide management structure with uncontroversial responsibility fields, applying of set principles at all levels of the organization.

The NCC’s operational risk management system implies the collection and registration of information about operational risk events and real or probable losses connected to them. At the same time in the interaction with the Authorized employees of legal and reputational risk management an estimation of operational risk events is made from the standpoint of their influence on the level of these kinds of risk. One of the most important tasks of operational risk management is also the maximum involvement of Bank’s employees into the operational risk management process.

The Bank regularly conducts the self-assessment - of operational risks and also operational risk management system analysis with the usage of mentioned in the Bank of Russia’s letter dated 23d of March 2007 No.26-T "About Methodological recommendations on verification of banking risk management system in a credit institution (its subsidiary)". The results of analysis help to determine development priorities in risk management system.

NCC’s managing bodies are regularly informed about operational risk events and measures taken to reduce the defined risks.

The multifaceted approach to the operational risks reduction (personnel, processes, systems) realized in the Bank implies in particular the measures as follows: the implementation of the system (with risks taken into account) to determine the priority of processes automation and conducting of regular audit of key business processes, maintenance of informational assets current accounting (informational systems, facilities, channels of communication), provisioning of communication channels, and the implementation of the project and service approach to the performance of departments.

The monitoring and control over minimization of defined risks is held also on the basis of operational risk indicators, reports on the project implementation, data of the administrative control system. According to the results of operational risk management reports the Bank’s managing bodies make orders to develop or take some or other measures aimed at reducing of defined operational risks.

As a qualifying central counterparty NCC monthly accounts for the Bank of Russia on the list of registered incidents and defined operational risks.

Operational risk minimization in the Bank is reached by the implementation of preventive and corrective internal and external controlling measures, which include particularly the introduction of new procedures and software and hardware means to control the access, differentiation of user’s/administrator’s rights in informational systems, data backup measure, analysis of the existing controlling measures and development and implementation of the new ones.

The Bank performs regular risk-audit of the key processes. According to its results new technologies are implemented, which reduce the level of the operational risk. During the implementation of new products and services the complex and multifaceted analysis of the project along with the assessment of operational risks is held.

Performing the functions of the clearing institution and the central counterparty, NCC acts according to the necessity of being ready to the appearance of events, which may lead to the halt of usual operations and procedures.

The Bank of Russia's Regulation dated 16December 2003 No. 242-P "About the internal control organization in credit institutions and banking groups" obliges credit institutions to develop plans of provisioning of continuity and business recovery in case of unforeseen circumstances. According to the regulator’s requirements a modern model of Business continuity management system (BCMS) was developed and implemented.

During the performance of processes ensuring the continuity of business NCC uses the methodology of international standard in continuity ensuring ISO 22301 (Social safety- Systems of business continuity management – Requirements). The main elements of this approach are as follows:

* The policy of business continuity ensuring – document, concerted with the Supervisory Board of NCC, which regulates the performance in the field of business continuity provision in NCC.
* The assessment of business continuity risks – the process of defining risks, their analysis and evaluation of their impact on NCC’s business.
* The analysis of impacts on business is the analysis of all the NCC’s processes from a standpoint of evaluation of probable impacts of different incidents in time. The analysis is conducted at least once a year and comprises all structural departments of the bank.
* Crisis management is the development of multilevel strategy providing continuity of NCC’s business, which includes principles of crisis management designed earlier.
* The strategy which provides the continuity of business is a developed strategy, where the actions in the following scenarios are described: unavailability of personnel, unavailability of the building/ office, unavailability of infrastructure, unavailability of data and unavailability of suppliers.
* The plan which provides the continuity and business recovery is a documented procedure which is used in case of emergency. The plan names measures to maintain crucial business functions at the level which has been defined and concerted earlier.
* The plan of recovery is a documented process of recovery and security of IT infrastructure and systems used in case of emergency.
* Incident management is distinctly defined and documented plan of actions, which is to be used in case of emergency to minimize the impact on personnel and crucial business-processes.
* Crisis communications are documented priorities in communications used in case of emergency, which contain earlier developed patterns for reporting to internal and external spheres.
* Testing and exercising is an important process, developed to determine adequacy, quality of planning, effectiveness of organizational readiness to ensure business continuity.

According to the strategy which provides the continuity of business and the requirements of business, there are alternative platforms created in NCC (geographically dispersed spare offices), which are activated during the scenario of the main offices’ unavailability. In order to estimate the NCC’s maturity in the field of business continuity reports on key indicators of business continuity management system are made regularly and sent to the managing bodies of NCC.

In 2014 it is planned by the operational risk management to pay more attention to processes and systems, connected to the high level of this risk including clearing systems and clients’ data. The main questions here will be the differentiation of possible non-authorized individual operations and control over provisioning of the right to access into automated systems. Besides, in terms of renovation of the most important processes in the IT sphere, development of project management, formation of complex approach to resources allocation within the Group, the main priorities of operational risk management system will be the development of proactive approach to the operational risk management, improvement of methodological basis of risk level analysis and assessment and the procedures of operational risk management within the Group.

**Legal risk management**

The legal risk management is realized in National Clearing Centre taking into consideration NCC’s activities specificity, combining functions of the central counterparty and clearing institution with the banking activities. Special attention is paid to the measures taken to minimize the legal risk during the NCC’s performance as the central counterparty.

In order to improve the legal risk management and the work aimed at minimizing this kind of risk in 2013 NCC adopted the Regulation “About legal risk management organization in CJSC JSCB National Clearing Centre" and an amendment to this document, and also the Position description of CEO’s Adviser of CJSC JSCB National Clearing Centre, who manages the legal risk.

The legal risk management process implies the division of powers between different levels of NCC’s managing bodies, and also between structural departments and employees of NCC. The system of authorities to make decisions in the legal risk management process and control over the legal risk management effectiveness contains several levels: the first – the NCC’s Supervisory Board and the Risk Committee of the NCC’s Supervisory Board, the second – NCC’s Executive Board, the CEO, the third – Authorized employee on Legal matters, Legal department, Internal Control Service, Accountant, the Department of risk analysis and control, Financial monitoring service; the forth – other departments.

The Bank has appointed an Authorized Employee on legal matters, who manages the legal risk and the work of legal risk minimization. The Authorized Employee on legal matters is independent from departments, making operations (transactions), related with the assumption of legal risk, namely from Legal department, Internal Control Service.

An Authorized Employee on legal matters on a regular basis conducts monitoring of the current legislation of Russian Federation, prepares overviews of changes in current Russian legislation, concerning the NCC’s activity. Overviews of changes in legislation are sent to all interested structural departments. Managers of all these departments provide prompt implementation of changes into their internal NCC’s documents, considering the changes in the current legislation of Russian Federation.

In accordance with the NCC’s internal documents an acquisition and analysis of information about the facts of legal risk realization is carried out. The Authorized Employee on legal matters quarterly prepared analytical reports on legal risk events and provided them to the Chairman of the Board. From the third quarter of 2013 on, according to the recommendations of Internal control service, the analytical report is delivered to the account and approval of Bank directors. The analytical report is formed on the basis of legal risk level assessment indicators, implemented by the Regulation.

In the process of the legal risk management the additional attention is paid to the analysis of clearing members’ (counterparties) complains and also to the measures, aimed at preventing situations, which can lead to the appliance of enforcement actions from the regulatory and supervisory bodies or occurrence of legal claims against the NCC.

In order to minimize the legal risk the typical forms of contracts and other internal documents were designed, the procedure of conformation by the Legal department of Bank’s contracts different from standard form contracts was established.

**Reputational risk management**

The reputational risk is defined by the Bank as a risk, arising as a result of negative perception of NCC by clients, counterparties, stockholders, investors, creditors, market analysts, supervision bodies, which can influence negatively the NCC’s ability to maintain existing and form new business relationships, have an access to financial resources on a regular basis and to perform mentioned in the Charter kinds of activities.

During the accounting period the reputational risk management was performed according to the letter of the Bank of Russia No. 92-t dated 30 June 2005 “About legal and reputational risk management organization in credit institutions and banking groups", on the basis of Regulation of reputational risk management approved by the NCC’s Supervisory Board and other internal documents. The management of this kind of risk was coordinated by the Authorized employee, who together with other subjects connected to the reputational risk management conducted monitoring and current evaluation of risk events and also took other measures, aimed at maintaining of the risk at the acceptable level.

During the reporting period the Bank conducted activities to develop reputational risk management system, aimed at increasing the effectiveness and facilitating the fulfillment of risk management internal procedures and implementing of effective methods to define events of the reputational risk:

* while acquiring the information about the operational risk events the analysis was conducted to define links and an extent of influence of operational risk events on the reputational risk; in the course of activities aimed at getting the status of qualifying central counterparty in July 2013 the Bank made the self-assessment of management quality, in the framework of which the self-assessment of reputational risk was also carried out. The outcomes of the self-assessment were reported to the Chairman of the Board s and sent to the Bank of Russia;
* analysis was made of complains uploaded by clients on the Bank’s web-site page named “Complains and Recommendations”, and the main lines of complains and the extent of their influence on NCC’s business reputation were defined;
* polling was arranged of professional clients in the financial market, aimed at determining the business reputation level and the Bank’s image;
* monitoring was carried out of informational field, in so far as it related to the Bank, its sole shareholder and [sole executive](http://www.multitran.ru/c/m.exe?t=4819987_1_2&s1=%E5%E4%E8%ED%EE%EB%E8%F7%ED%FB%E9%20%E8%F1%EF%EE%EB%ED%E8%F2%E5%EB%FC%ED%FB%E9%20%EE%F0%E3%E0%ED), and the reports with monitoring results were provided quarterly to the Chairman and the members of the Board of Directors, and to main subjects of reputational risk management.

In 2013 the concept was worked out to form a system of an informational and analytical support of reputational risk management process and it is to be implemented in NCC. The realization of this project will help to ensure the continuity of informing, analyzing , risk level assessing in accordance with the created scale, and also the monitoring and control over the measures taken to eliminate reasons for the reputational risk appearance.

**8.Technological Platform**

NCC technology platform complies with the international standards of reliability, fault tolerance and capacity, as well as with the requirements of rapid adaptations to the changing needs of the Moscow Exchange market and with changes in the bank regulation. The unique feature of the technology platform is determined by specifics of NCC as a CCP that is a seller for every buyer and a buyer to every seller on trades made in the cause of the centralized clearing implementation . This means the need to process and reflect properly trades, assets and liabilities in the NCC systems as a bank anda central counterparty in amounts not comparable with the volume of trades of other market participants (average daily volume of trades processed totals 1.5 million). Speed, capacity and reliability of systems’ operation mean that any potential failures in the systems and equipment operations are critical to ensure business continuity. In 2013, the availability of software and hardware complex for the most critical systems of automated data processing amounted to 99.98%.

In 2013, a considerable automation of new services and changes that occur in the infrastructure markets of the Moscow Stock Exchange was performed. Among the most significant are 4 large-scale projects:

1. Automation of accounting of CCP trades and settlements (in foreign currency and precious metals) on the precious metals market.
2. IT infrastructure realization on a new market of the Moscow Exchange - s[tandardized DI market](http://moex.com/s1010).
3. Automation of accounting of CCP trades and settlements on a new market of the Moscow Exchange - REPO with CCP.
4. Automation of reports to the Repository.

Each of the projects required significant changes/additions to the existing IT infrastructure. Thus, under the Precious Metals Market project, reciprocity between the servicing bank and the precious metals clients (SWIFT 6XX) was fully automated. This project was unique in the automation process trades in precious metals.

[Standardized DI market](http://moex.com/s1010) is the only one of Moscow Exchange markets, using new technology: the trades from trading-clearing systems get immediately to the core banking system - IBS "Centaurus Omega", which accounting and settlements are executed. The data processing technology used in this segment of the market is different from the ones used in other market segments, because it does not require using a pre-aggregation in a dedicated system. Ecosystem of Softwell NAVIGATOR was selected as a technology platform for the [Standardized DI market](http://moex.com/s1010), produced by company Softwell, one of the leaders in the development of treasury systems in Russia and CIS countries. Technology platform of  [the s[tandardized DI market](http://moex.com/s1010)](http://moex.com/s1010) includes primarily the front office of the Treasury - NAVIGATOR. Front, and the web interface of the terminal member - NAVIGATOR.Web. As well as essential components:

1. *Data bus (Bus) -* a universal mean of integration with both external information and trading systems (Bloomberg, Reuters, CB RF, etc.) and internal (back-office, limits control system, the CRM solution);
2. *Integration with Library of financial mathematics FINCAD* - seamless and transparent mechanism for assessing portfolio risk procedure based on FINCAD methodology - de facto globally recognized standard ;
3. *Module of OTC-derivatives* *Clearing* - a unique development of Softwell made by order of Moscow Exchange, realizing the [functionality](http://www.multitran.ru/c/m.exe?t=4730856_1_2&s1=%F4%F3%ED%EA%F6%E8%EE%ED%E0%EB) of a central counterparty.

This system was subject to the following requirements regarding reliability and sustainability:

1. The system should provide a guaranteed bidirectional communication with back office - the control of adequacy of collateral should be based on data from the accounting, actual at the moment. At the same time the deposit/withdrawal by participants through the S.W.I.F.T. system shall be ensured. When there are funds withdrawal it is necessary to monitor the adequacy of the collateral at once - in case of exceeding the requirements the withdrawal by Navigator is prohibited. That is, in addition to monitoring of the transport layer data delivery via the Bus, was necessary to ensure the Protocol's control of the upper, applied, financial level, with a full scan on the model FINCAD.
2. The system should have the interface to Bloomberg, which downloads the market level data, participating in the model of [Standardized DI market](http://moex.com/s1010) - quotes, transfer rates, indexes and other indicators, and also allows to receive from Bloomberg for clearing already matched orders - the essence of the trade. The possibility of extending this interface under other providers, including Reuters, was considered.

Also, when designing the system other opportunities for expansion and scalability features were laid. The security of communications with participants is provided by standard methods - complex passwords, SSL, industrial firewalls. In addition, at the request of some members, the ability to control access to the system by IP address was implemented: optionally, participants may limit for themselves a list of authorized IP addresses and disable login on their ID with any other addresses.

System fault tolerance is achieved by full back up of servers, both applied and database management systems; technologies for SAN data storage; geographical distribution of primary and backup paths; the use of network load balancers; other advanced technologies.

The main direction of activity in 2013 year in the sphere of the improvement of the technology used to execute the accounting of CCP trades and settlements in the markets of the Moscow Exchange was further development of the Central counterparty System (hereinafter the CCS). Here, the most significant project was a project combining technologies of processing CCP trades on all the market of the Moscow Exchange on the basis of the CCS Technology. Processed until 2013 on the old technology ,CCP trades on the FX Market were transferred to the new system of the CCS. Thus, by the end of 2013, in NCC the unified IT Technology of processing of the CCP trades was developed. Simultaneously, the updating of the System of settlements on the FX Market in accordance with users’ requests and requirements of the legislation were being continued. During the reporting period, 126 system updates were tested and installed.

In the framework of developing of core banking system - IBS "Centaurus Omega" the following was introduced:

1. Accounting of trades Loco swap and Financial SWAP with precious metals.
2. SWIFT for precious metals.
3. Accounting of REPO trades without recognition in the OTC market.
4. Accounting for s[tandardized DI market](http://moex.com/s1010).
5. Formation of tax registers on reverse REPO trades and trades on currency revaluation and currency securities.
6. Upgrading of Management of Reserves module in а part of the automated calculation of the quality category of counterparties.
7. Accounting of clearing trades of Saint-Petersburg Exchange with GAZPROM rouble shares.
8. Ability to create and send messages (FpML formats for repository).
9. 386 updates IBS "Centaurus Omega"were established.
10. Amount of IBS "Centaurus Omega"users at the end of 2013 increased up to 152 members.

In order to execute series of new regulatory requirements, the following activities were implemented in 2013.

As part of the reorganization of the Bank of Russia, NCC was transferred to 4th Service department of the Moscow HTD. To ensure the execution of payments, bank statements submission, exchange of informal information, the transfer of interaction of NCC with payment system of the Bank of Russia through 4th Service Department of Moscow GTU was implemented.

Compared with 2012, document flow with the Central Bank and Federal Services grew by 35%: document flow started in accordance with the FZ-210, the Regulation of the Bank of Russia 402-P, the Direction of the T-193, etc. Due to the significant growth of electronic document flow with Moscow GTU and Federal Services, dedicated Ethernet channel was organized, and EDI was transferred to the new technology "Environment of interaction with the client of the Bank of Russia".

Comparison of the most important for data processing speed volumes of documents flow is shown in the following scheme:

OUTGOING PAYMENTS

Fig.1.

Change of a total NCC document flow with the Central Bank and Federal Services is represented on the chart:

TOTAL DOCUMENT FLOW

Fig.2.

Also to meet the requirements of the Federal Law dated 27 July 2010 No. 210 "On the organization of public and municipal services" IT Technology for preparation and transmission of information in the "State information systems of state and municipal payments" complex was put into operation.

To provide uninterrupted activities of Treasury Operations Centre software and hardware complex Thomson Reuters Deal Tracker was put into operation. The transition from a system of trades accounting “Deal Sputnik" to a modern system “Deal Tracker", providing transmitting of trades into the front office treasury system and IBS "Centaurus Omega", was implemented.

To improve the reliability of the bank's systems and to reduce the operational risk, the following measures were carried out.

The modernization of Monitoring System Advanced Host Monitor was implemented, a system of SMS-notification of failures and critical events in IT System of NCC was put into operation. The deep modernization of NCC data storage was made: a single point of failure of equipment HP P2000 G3 SAS MSA was removed; useful volume data storage increased up to 40 TB, the transition to the new version of the software Symantec Backup Exec 2012 was implemented.

Replacing/installing, transfer of operating systems for the NCC workers was performed. In 2013, a total of 439 units of computer equipment were installed.

Implementation of the services of database management system (DBMS) ORACLE used for 9 IT systems, was continued. In main systems, IBS "Centaurus Omega" and Central Counterparty System DBMS ORACLE Partitioning was installed, which reduce the time to restore the database and send the data from the tables in the state preventing changes of archive data. Due to the increase in implemented modules in applications, the number of test databases was increased. The total volume followed database (DB) is 2.9 TB, the number of DB is 25.

**9. Main financial highlights**

|  |
| --- |
| **Main financial highlights of NCC as of 1 January 2014 (in RUB'000)** |
|  |  |
|  |  |
| **Net assets** | **319,623,521** |
| **Net income, total** | **9,251,089** |
| including |  |
| net interest income | 6,217,455 |
| commission income | 3,449,174 |
| **Operating expenses** | **1,271,056** |
| **Profit before tax** | **7,980,033** |
| **Accrued (paid) taxes** | **1,622,141** |
| **Profit after tax** | **6,357,892** |
| **Equity** | **28,839,271** |

***Financial highlights’ dynamics***

|  |  |  |  |
| --- | --- | --- | --- |
|  | **changes 2013/2012** | **2013** | **2012** |
|  Interest income  |   | 7,452,636 | 4,138,955 |
|  Interest costs  |  | 1,235,181 | 270,200 |
|  **Net interest income**  | **161%** | **6,217,455** | **3,868,755** |
|  Provision for assets impairment  |  | 17,588 | - 2,391 |
| **Net interest income after provisioning for possible losses**  | **161%** | **6,235,043** | **3,866,364** |
| Commission fees for clearing services | **135%** | 3,449,174 | 2,555,170 |
| Commission expenses | **118%** | 79,116 | 66,827 |
| Net (loss)/gain on financial assets measured at fair value through profit or loss  |  | -12 | - 65,136 |
| Net income from trades with held-to-maturity securities  |  | -758 | - 6,261 |
| Net income from trades with securities available for sale |  | -454,710 | - 676,011 |
| Net income from foreign currency trades  |  | 81,510 | 227,829 |
| Net income from foreign currency revaluation  |  | 36,617 | - 204,132 |
| Provisions for impairment of held-to-maturity financial assets |  | 558 | 0 |
| Provisions for impairment of other assets |  | -31,122 | 2,834 |
| Other income  |  | 13,905 | 12,042 |
| NET INCOME | **164%** | 9,251,089 | 5,645,872 |
| OPERATING EXPENSES  | **121%** | 1,271,056 | 1,054,756 |
| PROFIT BEFORE TAX  | **174%** | 7,980,033 | 4,591,116 |
| Accrued (paid) taxes |  | 1,622,141 | 1,073,426 |
| **NET PROFIT** | **181%** | **6,357,892** | **3,517,690** |



**Equity**

**Equity**

**Equity**

**Equity**

**Equity**

**Equity**

**Equity**

**Equity dynamics (RUB’000)**

***Equity growth dynamics***

***Dynamics of equity and main financial highlights (RUB'000)***

**Authorized capital**

**Retained earnings**

**Equity**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|   | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** |
| **Equity** |  **715,875**  |  **2,131,622**  |  **4,251,640**  |  **8,126,112**  |  **9,999,913**  |  **13,501,400**  |  **28,839,271**  |
| **Retained earnings** |  **15,258**  |  **373,478**  |  **937,956**  |  **1,738,448**  |  **3,615,799**  |  **7,034,380**  |  **13,371,249**  |
| **Authorized capital** |  **700,000**  |  **1,735,000**  |  **1,735,000**  |  **4,435,000**  |  **6,170,000**  |  **6,170,000**  |  **15,170,000**  |

**10. Code of Corporate Conduct Observance**

In the reporting period, the NCC has paid great attention to improving of the corporate governance level, considering it as one of the most important tools for the achievement of the Bank's strategic objectives.

In this activity NCC is committed to follow the best practices and standards of corporate governance, aware that the positive dynamics in this sector is a prerequisite to achieve a success in the financial and economic activity, to support the implementation of new projects and to develop the Bank as a whole.

Measures for the development of the corporate governance system of NCC were based on the recommendations of the Corporate Code of Conduct approved by the RF Government Session at 28 November 2001 (FCSM of Russia from 04 April 2002 No. 421/r), the Bank of Russia Recommendations and the Basel Committee on Banking Supervision, on corporate governance principles recognized in international practice, as well as on developed by the Organization for Economic Cooperation and Development (OECD), the European Association of Clearing Houses-Central Counterparties (EACH) and other recognized standards.

The corporate governance of NCC is a set of mechanisms and corporate procedures, maintaining a reasonable balance between shareholder rights and actions of the Supervisory Board, Executive bodies in the Bank management process.

The corporate conduct in NCC is based on the respect of rights and legitimate interests of the shareholders and promotes effective activities, including the increase in the value of assets and maintenance of financial stability and profitability.

NCC adheres to the following basic principles of the Code of corporate conduct:

* Practice of corporate conduct provides to a shareholder a real opportunity to exercise his\her rights related with the participation in NCC;
* Shareholder of NCC is provided by reliable and effective means of registering ownership of shares, and the ability to freely and quickly dispose of his\her shares;
* Shareholder has the opportunity to participate in the management of the Bank by making decisions on the most important issues of the General Shareholders Meeting;
* Shareholder has the opportunity to receive regular and timely complete and accurate information about NCC, including its financial position, results of operations, as well as the essential facts relating to the financial and economic activity.

NCC Shareholder has access to information in accordance with the current legislation of the Russian Federation.

The practice of the Supervisory Board activity demonstrates a high level of involvement of its members in the strategic management of NCC and the effective control over activities of the Board and Chairman of the Board.

The Supervisory Board is formed of highly professional managers with the necessary knowledge and expertise to address the long-term strategic objectives of the NCC development and having considerable experience in the collegiate governing bodies. Members of the Supervisory Board in their activity report to the NCC shareholder.

To ensure quality and timely decision-making in the human resources and remuneration at the Supervisory Board of NCC the Commission on Human Resources and Compensation Committee is established.

In order to fulfill the requirements of the Federal Law "On clearing and clearing activities" to gain control over the risk management system at the Supervisory Board of NCC operates the Risk Committee. The main task of the Committee is to participate in the improvement of the risk management system as a clearing organization, functioning as a central counterparty in order to improve the financial stability of the Bank and to ensure continuity of clearing activities. corporate governance

Corporate Governance Practices in NCC provides the Executive Board and CEO with an opportunity to reasonably, in good faith, solely for the benefit of the Bank to carry out the effective management of the daily operations, as well as accountability of these bodies to the Supervisory Board and the General Shareholders Meeting. The Executive Board and CEO shall organize the implementation of decisions of the General Shareholders Meeting and the Supervisory Board. The Charter of National Clearing Centre provides the right to the Supervisory Board to suspend the powers of the CEO, appointed by the General Shareholders Meeting.

In NCC the use of the confidential information is monitored. The Bank carries out the timely disclosure of complete and accurate information, including on the financial position, performance, ownership and management structure, based on the principles of equality of rights of all stakeholders to obtain information, taking into consideration the applicable laws.

NCC discloses its financial statements in accordance with the Russian and international standards. NCC also discloses the additional information on its activities, which may be essential for shareholders, investors and other interested parties, in compliance with a reasonable balance between the Bank and the protection of its commercial interests.

For disclosure NCC uses the most convenient means and methods. The maximum possible amount of information is available on the corporate website (www.nkcbank.ru). NCC also discloses information through the media. Every significant event or action is accompanied by the release of NCC's press releases distributed to the media.

The Supervisory Board, the Audit Commission, the independent auditor and the Internal Audit Service of the Bank, which activities are accountable to the Supervisory Board, make control over financial and economic activity of the NCC's Supervisory Board. Independent auditor shall be approved by the General Shareholders Meeting.

NCC gives great importance to the timely prevention and just settlement of corporate conflicts and intends to resolve corporate conflicts in the early stages of their appearance on the basis of negotiations and compromises involved in the conflict, taking into account the legitimate interests of all participants.

Internal documents of NCC secure procedures of declaring members of the executive bodies of the NCC a conflict of interest, and mandatory reporting of the Supervisory Board on such cases. This practice improves the protection of the interests of shareholders.

The Bank is working to improve the internal [rules and regulations](http://www.multitran.ru/c/m.exe?t=5237008_1_2&s1=%ED%EE%F0%EC%E0%F2%E8%E2%ED%EE-%EF%F0%E0%E2%EE%E2%E0%FF%20%E1%E0%E7%E0)’ base aimed at introducing elements of corporate governance best practices in the operation of the management and control departments of the Bank.

1. **HR policy**

**National Clearing Centre organizational structure**

HR policy of National Clearing Centre in the reporting period was aimed at ensuring the realization of Moscow Exchange Group management tasks for the Bank to develop the clearing in the stock exchange and OTC market segments, to improve the risk management and implementation of plans of improving the profitability of the Group.

In 2013, the number of Members of the Executive Board of NCC was increased up to 4 persons, Director of the Clearing Department was elected to the Executive Board. Managing Director joined the team of Bank's top managers. The main task assigned to the new top manager is the introduction of new and improvement of existing technologies of risk management.

In addition to these HR changes, the key Bank departments (Clearing Department, Department of Analysis and Risk Control, Department of Information Technologies) were staffed by highly qualified professionals.

As of December 31, 2013, the structure of National Clearing Centre included 15 departments. The number of employees increased by 18 people or by 15% compared to the previous year, and amounted to 136 people at the end of 2013.

**Motivation and remuneration policy**

In 2013 the Regulations of administration grading system and the basic pay came into force, which allows the Bank to determine the value of specific positions for the company, to provide competitive remuneration to attract, motivate and retain qualified personnel, and to manage effectively the processes associated with the revision of employee wages on the results of operations for the period.

In 2013 the development of the system of motivation of the employees of the Bank was continued, and the correlation between the achieved results and remuneration was strengthened. The performance management process (PMP), introduced in 2012, entrenched firmly in the management activities of the Bank and its business processes. The main stages of the PMP are automated on the basis of HRM system ET-Web, namely: formulation and statement of objectives for the next period, an interim evaluation, outcome evaluation of the activities for the reporting year. In the framework of the PMP the Bank employees were offered a series of training sessions, after which the staff improved their ability to set individual goals, and the managers improved their skills for feedback subordinates on the results of their activities.

One of the important components of the system of motivation and remuneration of the Bank's employees is a bonus system based on performance for the year. Factors affecting individual premium to employees are the results of the individual and company performance for the reporting period, grade of position, the time actually spent in the reporting year, the salary amount and its change. When deciding on the size of individual premium volume in the reporting year, a proposal of supervising managers was considered.

As part of the annual salary review (in May 2013) in order to retain highly-skilled and productive employees, a review of salaries was conducted. In addition to the evaluation of efficiency of activity for the reporting period, the fact of the revision of workers wage have also been influenced by the ratio of the fixed compensation of a particular employee to the average value of the level of wages offered in the labour market in companies of the financial sector comparable with the Bank.

**Social policy**

The main objectives of National Clearing Centre social policy are the creation of conditions for the social protection of employees and the creation of favorable social and psychological climate.

In the reporting period, the new edition of the Regulations of social benefits to employees was approved, which expanded the list of certain types of financial aid, which simultaneously improves the social protection of employees and their loyalty level to the company.

Corporate voluntary medical insurance programs (hereinafter VMI) are formed to meet the needs of the Bank’s employees and to allow them to include in an individual insurance plan those clinics and medical services that are needed most to the employee and his family members. Regularly monitoring of new clinics and services offered in the corporate contract VMI is held, as well as monitoring of the quality of existing services of voluntary health insurance.

In 2013, taking into account the wishes of employees, corporate VMI programs included an option to purchase medicines prescribed by a doctor due to the insurance premium for a corporate contract of voluntary medical insurance.

The information on the conditions of insurance is achieved through complete transparency and accessibility of materials about programs for employees and their families on the corporate portal, and provision of an advisory support to employees. In 2013, the process of forming individual VMI plans was automated. In addition, the employees have online access to the information on the conditions of receiving of various medical services.

Training and development

In 2013 in the field of training and development of staff the following key tasks were peformed:

* implementation of the updated principles of the system of personnel assessment;
* development of key middle managers;
* creation of the system of internal training and development for managers of middle management and specialists;
* cooperating with universities for educational practice/internships (for students) and graduate recruitment (for young specialists). .

In the reporting period the projects in the following areas have been successfully implemented:

*Corporate programs of Bank management development*

Program “Business University" for the heads of key departments of the Bank was launched. This program is based on a corporate model of assessment of competencies of managers and their level of training that allows to develop the necessary business skills and to supple professional skills by the necessary theory. The program lasts for 2 years, and for its implementation professional coaches were invited, and to conduct master classes reputable speakers were attracted.

*Internal Training*

During the reporting period the number of internal trainings increased significantly to develop the necessary corporate competencies of employees and to give them new knowledge and skills. Internal trainings are mainly designed for junior level managers and specialists. The work undertaken in this area during the reporting period is as follows:

* Training matrix formed, on the basis of which the plan and the content of training programs were developed
* 10 programs were worked out, which were used in training of 30 junior level managers and specialists.

Distance learning courses

Within the project Distance learning the courses was developed in the following areas of activity: business continuity, operational risks. These courses are required for the training of employees. In addition, 8 more developing programs were worked out to enhance the knowledge of employees in various areas of the Bank without discontinuing work.

*Increasing the level of professional qualifications*

An important component of the training system of the National Clearing Centre was a system of additional vocational training, providing training on topical issues of the company. In 2013, 74 employees of the Bank were trained in accordance with external programs, acquired new professional knowledge and exchanged experience with colleagues from financial and banking sector.

1. Hereinafter: Day T is the day of the conclusion of transaction. [↑](#footnote-ref-1)
2. Hereinafter: Day T is the day of the conclusion of transaction. [↑](#footnote-ref-2)
3. Hereinafter: Day T is the day of the conclusion of transaction. [↑](#footnote-ref-3)