**MAJOR PERFORMANCE RESULTS**

**OF**

**BANK NATIONAL CLEARING CENTRE**

**(JOINT-STOCK COMPANY)**

**FOR THE YEAR 2016**

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**1. General information**

Bank National Clearing Centre (Joint-stock сompany) (hereinafter - the "Bank", “NCC”) was founded in 2005 pursuant to the resolution of the General Meeting of Founders with the names “Joint-Stock Commercial Bank “National Clearing Centre” (Closed Joint-Stock Company)” and “CJSC JSCB National Clearing Centre”, 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 dated 30 May 2006, Primary State Registration Number – 1067711004481).

On 30 May 2006, the Bank of Russia issued to the Bank the certificate of state registration of the credit institution No. 3466, and on 16 August 2006 – the license for banking operations in rubles and foreign currencies No. 3466 (without the right to raise private deposits).

In 2012 the Bank expanded its operations and obtained a license for raising and placing precious metals on deposits.

In 2014, the Bank was reorganized in form of affiliation to it of the Non-Banking Credit Organization “RTS Clearing House” (closed joint-stock company) and the closed joint-stock company RTS Clearing Centre. The Bank is a legal successor to the above legal entities.

In 2015 pursuant to the resolution of the Bank’s sole shareholder, the Bank’s names were brought in conformity with the current legislation and now read as follows: Bank National Clearing Centre (Joint-stock company), and in short - NCC Clearing Bank.

Due to the performed change of the Bank’s name, on 17 March 2015, the Bank renewed its license for banking operations in rubles and foreign currencies (without the right to raise private deposits) No. 3466, and the license for raising and placement of precious metals on deposits.

For carrying out clearing operations in accordance with the Federal Law “On clearing, clearing activities and central counterparty” No. 7-FZ of 07.02.2011 the Bank has the clearing license of 18.12.2012. In 2015 in accordance with the said Federal Law the Bank obtained accreditation from the Bank of Russia to perform the functions of commodity delivery operator.

The Bank also holds the license for development, production and distribution of encryption (cryptographic) means, information systems and telecommunication systems protected by using encryption (cryptographic) means, performance of works and provision of services in the field of data encryption, technical maintenance of encryption (cryptographic) means, information systems and telecommunication systems protected by using encryption (cryptographic) means (except where technical maintenance of encryption (cryptographic) means is conducted for own needs of the legal entity or private entrepreneur).

***Location***

13 Bolshoy Kislovskiy per., Moscow

***Mailing address***

13 Bolshoy Kislovskiy per., Moscow, 125009

 In the reporting period, the following internal structural subdivisions were operating:

* Sredniy Kislovskiy Additional Office of NCC Clearing Bank, located at: Bldg.8, 1/13 Sredniy Kislovskiy per., Moscow;
* Spartakovskiy Additional Office of NCC Clearing Bank, located at: Spartakovskaya ul. 12, Moscow.

***Management bodies*.**

According to the Articles of Association, the Bank’s management bodies are as follows:

* General Shareholders Meeting is a supreme management body;
* Supervisory Board is a management body performing overall administration of the Bank's activities; members of the Supervisory Board are elected by the General Shareholders Meeting for a period up to the next annual General Shareholders Meeting;
* Management Board (collective executive body) is a management body in charge of the current NCC's operations; members of the board are elected by the Supervisory Board; the term of each member of the Board in office is set by the Bank’s Supervisory Board but cannot exceed five years; and
* Chairman of the Management Board (hereinafter-CEO) (sole executive body) is a management body in charge of the current NCC's operations, elected by the Supervisory Board for the time period set by the Supervisory Board, but for no more than five years.

The independent auditor of NCC for the year 2016 in accordance with the sole shareholder's resolution No. 30 dated 13 May 2016 is LLC Ernst & Young Vneshaudit.

**2. Authorized capital and shareholder structure**

When the Bank was established, the General Meeting of Founders approved the authorized capital of the Bank as 235,000,000 rubles, divided into 235,000 registered ordinary shares with par value of 1,000 rubles each.

During 2006-2013, the authorized capital of the Bank increased from 235,000,000 rubles to 15,170,000,000 rubles via placement of additional registered uncertified ordinary shares of the Bank; and in 2014, due to the Bank’s reorganization in form of affiliation, the Bank’s authorized capital was increased through placement of two additional issues of registered uncertified ordinary shares of the Bank in the total amount of 1,500,000 shares (not exceeding the number of authorized shares) by converting into the latter the shares of the affiliated Non-Banking Credit Organization “RTS Clearing House” (closed joint-stock company) and closed joint-stock company RTS Clearing Centre.

As of the end of the reporting period, the authorized capital of the Bank equaled 16,670,000,000 rubles, divided into 16,670,000 registered uncertified ordinary shares with par value of 1,000 rubles each.

***Shareholder structureв***

As of 31 December 2016, the register of shareholders of NCC Clearing Bank contained one entry - Public Joint-Stock Company Moscow Exchange MICEX-RTS

During the reporting period, the Bank’s Register of Shareholders was kept by the following Registrar: Joint-Stock Company “Registrar Company STATUS”.

**3. Industry position of NCC Clearing Bank**

In 2016 NCC Clearing Bank realized the 2016 year plans taking into account the internal and external factors influencing its operations.

 In the reporting period amendments were adopted to a number of the legislative acts, which will influence considerably the activities of central counterparties (Federal Law of 29.12.2015 No. 403-FZ “On introduction of amendments to separate legislative acts of the Russian Federation”). For the purposes of harmonization and elimination of regulatory arbitration the legislation provides for the same status for all central counterparties – a non-banking credit institution, to which NCC must be transferred by the end of 2017. This requires making a set of corporate arrangements for bringing the NCC’s activities and internal documents in line with the provisions of the above Federal Law.

Like in the previous several years NCC carried out its activities in 2016 under the conditions of the remaining trend for decrease of the number of credit institutions due to revocation of licenses by the Bank of Russia and in the environment of changes in the collateral structure of clearing members under the influence of interest rates change in the financial markets. As a result of termination of activity of a great number of banking institutions NCC had to resort to liquidation netting procedures when managing defaults to fulfill unconditionally central counterparty obligations. The change in the collateral structure required making changes in the Bank’s assets structure in the context of financial instruments and currencies.

The Bank provided the implementation of the decision made by the shareholders on paying out in 2016 dividends in the amount of 25 bln 400 mln rubles out of the retained profit of the previous years without impairing its stability and without risk of non-compliance with regulatory requirements of the Bank of Russia. The Bank fulfilled its obligations for increasing the CCP dedicated capital bythe amount of 3 bln rubles. With that, NCC continued to keep its positions as one of the highly capitalized CCP in the world with the volume of its equity (capital) amounting to 46 bln 214 mln rubles as of 01.01.2017 (54 bln 131 mln rubles as oft 01.01.2016).

 The adoption of Federal Law No. 222-FZ of 15.07.2015 “On Activities of credit rating agencies in the Russian Federation” required NCC to carry out a multi-scale work for obtaining the rating of the Analytical Credit Rating Agency (ACRA) – the single rating agency included into the special register by the Bank of Russia as of Autumn of 2016. ACRA assigned the Bank the credit rating of the national scale at the level AAA(RU), outlook “Stable”.

As a result of the completion of the “Stabilizations and Reliability” Program of MOEX Group in 2016, NCC replaced fully the server equipment stock and relocated the NCC’s software-hardware complex to the new data processing centre with international reliability factor “Tier III”. When participating in the realization of that program, NCC implemented a set of organizational and technical arrangements, maintaining simultaneously uninterrupted operation of the software-hardware systems procuring the Bank’s business processes.

Throughout 2016, the arising challenges did not become an obstacle for implementation of the projects jointly planned with Moscow Exchange Group and Bank’s own plans, which were successfully implemented in 2016 in close cooperation with the Group’s structural subdivisions and support of the Bank of Russia.

In the reporting year, NCC concentrated efforts on top priorities in implementation of the following projects and objectives:

* developing clearing services and processes;
* improving the risk management framework, primarily as regards creating a reliable protection of CCP and improving its management quality, in compliance with international standards; and
* implementingf the plans for formation of the Bank’s budget revenue.

 In 2016 the Bank continued clearing operations in all markets of Moscow Exchange Group (FX market and precious metals market, securities and money markets, derivatives market and SFD market), and in the commodity derivatives market and commodity spot market of JSC Moscow Energy Exchange, commodity market of JSC National Commodity Exchange (grain market).

The general scheme of the NCC’s clearing operations in the on-exchange markets at the end of 2016 was as follows:

**CISC Securities Exchange MICEX**

**(before 19.12.2016)**

**PJSC Moscow Exchange (since 19.12.2016)**

**(с 19.12.2016)**

**PJSC Moscow Exchange**

**NCC Bank (JSC)**

**As at the end of 2016**

* **655 clearing members**
* **the volume of obligations of clearing members defined according to the clearing performance results: 1,531 trillion rubles. (1,212 trillion rubles in 2015)**

Clearing with CCP in the derivatives, FX, precious metals and standardized OTC derivatives markets

Clearing in the securities market (with CCP and without CCP)

Clearing with CCP in the commodities market (grain delivery futures)

**JSC National Mercantile Exchange**

**JSC Moscow Energy Exchange**

* Clearing with CCP in the commodities market (electric energy section);
* Clearing without CCP in the commodities market (oil and gas section)

***Among the most essential results and events of the last year it is necessary to note the following:***

1. **Within the implementation of the strategic projects of the Moscow Exchange Group aimed at clearing activities developing:**
2. **The project “REPO in General Collateral Certificates” was launched.**

The project stipulates the creation and use of fundamentally new instruments – the general collateral certificates (GCC), which are non-issue bearer securities subject to mandatory centralized custody. The Bank performs functions of the clearing organization and of the central counterparty under trades. General collateral certificates are issued in exchange for the assets posted by a clearing member into an asset pool. GCC received in exchange for such assets may be used by pool members and also by clearing members in order to conclude REPO trades with the CCP.

***Advantages of the conlusion of REPO trades in GCC:***

* preserving a property right for the assets posted into an asset pool and the right to receive the income and the voting right, when concluding REPO trades in GCC;
* efficient management of assets in collateral through:
	+ using securities posted into an asset pool to fulfill the obligations under REPO trades with CCP and trades Т+;
	+ selection of assets for an asset pool;
	+ replacement of assets in an asset pool;
* money market liquidity is concentrated in one “order book”;
* conclusion of long-term trades;
* portfolio margining of the assets posted into an asset pool with using the NCC’s risk management framework;
* netting of offset positions.

The list of assets acceptable for an asset pool is determined by the Bank’s resolution. The GC certificates issued by Bank are referred to a certain assets pool.

At present time the NCC has the following asset pools:

|  |  |
| --- | --- |
| **Name of pool** | **Assets acceptable to the pool** |
| Sovereign | Securities simultaneously included into the Lombard list of the Bank of Russia and accepted by the NCC as collateral |
| GC Bonds | Bonds accepted by the NCC as collateral under Trades Т+ |
| GC Shares | Shares accepted by the NCC as collateral under Trades Т+ |

In addition to the securities, foreign currency (USD, Euro) and Russian rubles may be contributed to each of the assets pools. NSD assigns one ISIN to all GCC issued within the same assets pool. The par value of one GCC is equal to one (1) Russian ruble. The securities, which issuer is a pool participant or person associated with such participant, are not recorded as assets posted to the relevant assets pool of such pool participant.

1. **Preparatory arrangements have been made to launch the project “Placement of deposits with the central counterparty” in 2017**

The project is being implemented to expand the money market instrument range and with the aims to provide the direct access of corporations (legal entities without the license of the professional market participant in the securities market) to the conclusion of deposit agreements with the central counterparty. For the reporting period:

* draft amendments were prepared to the Federal Law No. 325-FZ of 21.11.2011 “On-exchange trading”, to the Federal Law No. 7-FZ of 07.02.2011 **“**On clearing, clearing activities and the central counterparty” and to a number of other regulatory acts concerning the improvement of the on-exchange trading mechanism for concluding trades on placement of cash funds (deposit agreements) and mitigating risks connected with the absence of special regulation;
* the version of the Clearing Rules of Bank National Clearing Centre (Joint- stock company), containing the procedure for conclusion and performance of deposit agreements, both on the terms of full prefunding and without full prefunding, is prepared, approved and submitted for the registration to the Bank of Russia;
* the software has been finalized to implement the project.
1. **The internal regulatory base, which enables to provide clearing services on the Standardized OTC derivatives market on the basis of the Common part of the Clearing Rules of the NCC Clearing Bank, was standardized**

In the reporting period the Bank developed, coordinated, approved, provided registration by the Bank of Russia and uploaded on the NCC’s website the Clearing rules on the standardized OTC derivatives market and also the documents describing the software changes required for the project implementation.

The Clearing rules on the standardized OTC derivatives market were included into the unified Clearing Rules to make it possible to apply the provisions of the General part of the Clearing Rules to the standardized OTC derivatives market, including the provisions on:

* Unified liquidation netting;
* separate record of proprietary funds of clearing members and their clients (segregation);
* transfer of collateral and obligations of one clearing member to another clearing member (portability);
* procedures, which, in case of a clearing member’s default in one of the markets, provides the opportunity of the priority use to discharge the debt of a clearing member in favor of NCC, out of the individual and collective clearing collateral, and also the other collateral of another defaulting clearing member, recorded on other markets, before using funds of the NCC and collective clearing collateral of non-defaulting clearing members. At the same time the collective clearing collateral shall be used after applying to the defaulting member the procedure of enforced positions close-out (cross-default procedure);
* using and recording funds from the Default Fund;
* structure of defense levels in case of defaults of clearing members (default waterfall), combining all main methods of protection.
1. **The project for creation of an opportunity for performing cross-default procedures among all markets was completed**

In December 2016 the project for creation of an opportunity for performing the cross-default procedures among markets was completed - the task for upgrading the Derivatives market software was implemented. As a result, clearing members were provided with an opportunity of the direct transfer of funds, posted by them as individual clearing collateral, between the Derivatives and other markets.

Thus, the process of clearing members’ funds transfer among all sections of the market (except for Standardized OTC derivatives market) was simplified that increases their use efficiency.

1. **NCC’s accounting system was optimized**

The transfer to the use of the unified accounting system of the central counterparty built on the basis of the CCPS, at the same time was carried out with abandoning, the use of NCC’s two accounting systems.

The introduction of the unified accounting system to all markets contributes to:

* reduction of NCC’s operating risks connected with clearing in the markets of Moscow Exchange Group;
* reduction of maintenance and development costs of the NCC’s accounting systems;
* reduction of the term for new products and projects introduction;
* unification of the list of services provided by the NCC to clearing members on various markets of the Moscow Exchange Group.

The implementation of that project made it possible to increase the reliability of the NCC’s IT infrastructure, mitigate operational risks, optimize business processes in all markets.

1. **Grain Market Project development**

For the purposes of the Commodities market development by the end of 2016 the Bank developed, agreed, approved, provided registration by the Bank of Russia and placed on the NCC’s website the Clearing Rules on the commodities market and also the documents describing the software changes required for the project realization.

The Clearing Rules on the Commodities market were changed/amended in the following way:

* the model of contracts’ execution on the Commodities market was changed – the execution takes place with participation of the central counterparty without concluding a spot trade between clearing members;
* the procedure for swap contracts clearing was changed: for the clearing members of the category “B” under the first part of a swap trade clearing of secured trades in commodities is executed and clearing of partially secured trades in cash funds is executed;
* the procedure for checking the possibility to register combined orders – orders submitted by market participants with the aim to conclude a forward contract, which are at the same time orders to conclude swap contracts;
* the provisions on charging fee for the right to use cash funds constituting the individual and/or the collective clearing collateral were brought in line with the changes made in the Tax Code of the Russian Federation.
1. **Unified collateral pool (implementation of separate stages of the project)**

The Unified Collateral Pool Project is a strategic line of the NCC’s clearing development. The main objectives of the project are:

* reduction of costs on funding transactions on the Derivatives market, FX market and Precious metals market due to using a wide range of assets recorded on the accounts of the Securities market, and also due to lifting the existing restrictions on the assets acceptance (shares of assets) as an individual clearing collateral ;
* provision of simple and convenient access to cross-market transactions due to the unification of procedures for posting the individual clearing collateral and fulfilling obligations;
* reduction of transactions costs in the infrastructure of Moscow Exchange Group due to the unification of clearing procedures.

In the reporting period the following actions necessary to launch the project in 2017 were executed:

* model of the unification of the clearing functional for all markets was developed and agreed;
* version of the Clearing Rules of Bank National Clearing Centre (Joint stock company) has been developed and is under coordination, containing the amendments concerning, among other things:
	+ - unification of the list of assets accepted as the collective clearing collateral in the Securities market, FX market and Derivatives market (including acceptance of the Russian government bonds (OFZ) in all markets);
		- creation of the unified trade account to record collateral (with retaining the possibility to keep separate trade accounts for different markets);
		- net settlements under obligations and claims arising from trades in the Securities market, FX market and Derivatives market using assets recorded on the unified trade account;
		- realization of cross-margining and namely:

 *In the FX market :*

* + - Recording interproduct spreads by the positions formed under trades EUR/USD, USD/RUB and EUR/RUB,

*In the Securities market:*

* + - Recording interproduct spreads for a group of securities: on the first stage will be applied to the OFZ positions,

*In the Derivatives market:*

* + - Implementation of technologies of covered sales,
		- Optimization of counting of calendar spreads,
		- Modernization of delivery;
		- “early settlements” in the Securities market with regard to cash funds , and namely:
* return of Russian rubles and foreign currency for the Settlement account of the unified pool during the trading day becomes possible in the amount of the settlement position (current position + claim under trades with the arrived settlement date);
* procedure for the execution of requests for return of securities does not change.
* Documents describing the software changes required for the project implementation were developed and agreed.
1. **The client’s level of access within the project for segregation of the statuses of market participants and clearing members on the FX market (2-nd and 3d stages) was implemented**

Since July, 2016 the clearing members have been provided with the possibility to use different legal models of separation of the statuses of market participants and clearing members – the clearing broker model and model of agency contract.

The first of the mentioned models stipulates entry of a clearing member as a clearing broker into a transaction with the NCC on the basis of the order submitted by the market participant acting in its interests or in the interests of its clients (but not in the interests of such clearing member). In particular, the market participants not being clearing members can register their clients for the aims of clearing and settlements on the FX market – legal entities and individuals, including non-residents. The second model – agency contract is applied in accordance with the Clearing Rules for such cases when a market participant submits an order in the interests of the clearing member itself, which is a party to the trade with the CCP.

For using the said legal models, when opening the settlement account, the clearing member will specify which model will be used with its participation when submitting orders to conclude trades, the obligations under which will be recorded and performed under such settlement account. The project implementation will make it possible to achieve more flexible management of clients’ positions and use on-exchange risk management under clients’ operations.

1. **Clearing Terminal Project (separate stages have been implemented)**

The Clearing Terminal Project is being implemented as an IT application providing members with the following opportunities:

* to monitor information about its proprietary positions, client positions, cash funds and collateral, consolidated across all markets of the Moscow Exchange;
* remotely, safely and on an authorized basis to submit electronic requests to the NCC, perform non-trading transactions, control their settlement and obtain legally significant responses from the exchange.

The aim of the project is:

* to improve the quality of the services provided to clearing members and market participants:
	+ creation of the unified information system “Clearing Terminal” enabling a clearing member to monitor and operate its clearing data across all markets, on which the NCC acts as a clearing organization: stock market, money market, FX market, derivatives market (includs standardised OTC derivatives market) and commodities market;
	+ creation of the software interface (WEB-API) of the Clearing Terminal making it possible for clearing members to use the Clearing Terminal functional for developing its proprietary software and for performing transactions of the unified pool in the trading terminals included into the framework of the Unified Collateral Pool project;
	+ provision to the non-clearing members-market participants at the same time, with a possibility to manage clearing data in accordance with the Clearing Rules;
	+ computerization of a number of processes by refusing paper document interchange between a clearing member and the NCC;
	+ reduction of the time for processing requests of clearing members;
	+ elimination of any other revealed problems of the current systems;
	+ reduction of the expenses of Moscow Exchange Group on the maintenance of the software supplied to clearing participants – support and maintenance of a new software will be carried out remotedly by the Group specialists from their workstations without arrival to the territory of a clearing member.

During the reporting period the following actions were performed for implementing the project:

* the Web-clearing system – software being an intermediate link between the Universal Client Workstation (UCW) and the Clearing terminal was implemented. The introduced software enables the following functions:
	+ convinient web-interface (designed for the work with transactions),
	+ acceptable speed of the system response,
	+ authentification: the EDI key certificate,
	+ possibility for preparing document templates for standard requests (with possibility for saving with mnemonic name),
	+ possibility for two signatures of documents (option is set during the process of connection to Web-clearing),
	+ unified interface for the stock and FX markets,
	+ availability of all requests kept currently at UCW.
* the documents describing the software changes required for the project implementation (abondement of Web-clearing and UCWP and transfer to the Clearing Terminal) were developed and approved;
* the software required for launching the project is being developed.
1. **The standardized OTC derivatives market participants were provided with a possibility to conclude OTC derivative trades through the CCP**

The project was applied to currency and interest rate swaps, currency forwards. This enabled the market participants to minimize their risks. CCP also took on the role of reporting on the concluded-through-CCP OTC trades to the repository and that made it easier for the participants to report on such type of trades.

1. **Margining under settlement accounts was introduced on the derivatives market; intercommodity spreads for EUR and USD on the FX market were introduced as a part of unification of approaches to the margining system across all markets of the Moscow Exchange.**
2. As a part of the development of the system of management of all types of risks of the NCC Clearing Bank, the Bank improved default waterfall of the CCP through introduction of the following changes:
* the Bank introduced collateral for stress in the FX, stock and derivatives markets of the Moscow Exchange which provides an additional safeguard level against default risk of the CCP counterparties. The stress collateral has the status of individual clearing cover and serves as an additional cover of the risks of the concentrated positions of participants in case of occurrence of stress market scenarios. Its amount is determined subject to the risk level of the positions of the clearing participants not covered by their individual clearing collateral and existing collective funds and CCP’s dedicated capital;
* the Bank increased the amount of CCP’s dedicated capital by 3 bil rubles up to 9.5 bil rubles, with introducing an additional dedicated capital for all exchange markets. Such additional funds are a Bank’s contribution to increasing the reliability of the exchange markets;
* NCC and Moscow Exchange concluded the agreement, under which Moscow Exchange contributes money to the guarantee fund of one or several exchange markets at NCC’s request in the amount of up to 5 bil rubles.
1. **The Bank created a new service for the calculation of indicative risks in the stock market,** which can be used by brokers - market participants of the Moscow Exchange for the calculation of risk rates for clients’ transactions. Such client service enables reduction of the operational costs for supporting brokerage activities. This service constitutes one more, additional level of security from risks for the Bank.
2. **International rating agency Fitch Ratings confirmed** the Bank’s long-term local currency (LC) issuer default rating (IDR) at 'BBB' and viability rating (VR) at 'bbb'- one notch above the Russian sovereign rating - “BBB-. In October, 2016 Fitch Rating confirmed the issuer default rating (IDR) and the NCC debt liabilities rating and revised the forecast of the NCC ratings in favor of “stable” following the change of the forecast of the RF sovereign rating.
3. **The compliance of the introduced to the NCC Quality Management System with ISO 9001:2015 was confirmed,** which is an important additional part of the risk management system aimed at increasing the perfection and quality of the management of the central counterparty.
4. **The new version of the Internal Control Rules of the NCC Clearing Bank in the area of combating legalization (money laundering) of criminal income and financing of terrorism was introduced.**

The new rules took into account the changes in the legislation on combating money laundering/financing of terrorism, including the establishment of new requirements for the identification of clients, client representatives, beneficiaries and beneficiary owners and also requirements for opening of a bank account to a client-legal entity only in case of personal presence of the representative of such client.

 ***Reliable performance of its obligations to the clearing members and successful implementation of business projects for developing client-oriented clearing services made it possible to provide a considerable increase of the volume of services rendered to the clearing members.***

***As at December 31, 2016:***

* the total number of cleraing members amounted to 655 organizations;
* the volume of the obligations of the clearing members determined on the basis of the clearing results for 2016 exceeded 1,531 trln rubles; that is by 1,3 time higher than the similar figure for 2015 (1,212 tln rubles);
* the amount of the received fees amounted to 6,435 mln rubles, that is 1.14 time higher than the similar figure for 2015 (5,630 mln rubles).

**4. Development prospects**

In 2017, main efforts of NCC will be directed towards the implementation of the projects aimed at achieving the objectives set for the Bank in the Group Strategy for the years 2015-2020, approved by the Management Board of the Moscow Exchange and in the NCC Strategy for the years 2017-2020 approved by the Management Board of the Bank and namely aimed at:

* perfection and unification of the risk management system on all markets;
* creation of the unified clearing and settlement pool for all markets of the Moscow Exchange;
* creation of the unified collateral pool;
* introduction of the best world practices and adherence to the international standards in clearing activities and in performing the functions of the central counterparty;
* maintenance of the high level of return on capital.

Forecasting continuance, and possibly even strengthening in 2017 of the negative external background, continuance of the trend for rehabilitation of the banking sector by the regulator, the Bank will be paying utmost attention to monitoring the situation in the global and Russian financial markets, directly tracking the activities of the clearing members, partners and counterparties for the timely response to external and internal challenges, thus ensuring continuity of the critical services provided by NCC in the field of clearing and in performance of the central counterparty function.

The Bank’s development prospects in 2017 are linked to change of NCC status of the bank to the status of a non-banking credit institution – central counterparty; in this connection it is planned to make a set of corporate arrangements aimed at solving this task – getting the banking license for the NBCI-CCP, change of the Articles of Association , change of the name, increase of the quantity of independent directors in the Management Board, computerization of the reports of the central counterparty in compliance with the new status etc.

1. **The following projects are planned for implementation in the clearing and risk management fields:**

**А*. Unified Collateral Pool Project is the strategic vector for development of the NCC's clearing activities***

The Unified Collateral Pool Project is planned to be launched in the 2nd half of the 2017 after the registration of the Clearing Rules by the Bank of Russia and also after the inspection of the software preparedness.

When implementing this project, the efforts will be concentrated on performing the following top priority tasks:

* providing possibilities for transfer of the profiles of Russian rubles, foreign currency and precious metals between the Trading and Clearing System of the stock market and Trading and Clearing System of the FX market;
* providing possibilities for transfer of the profiles of Russian rubles between the Trading and Clearing System of the securities market and Trading and Clearing System of the derivatives market;
* modernizing the technologies of delivery to the Trading and Clearing System of the derivatives market (1-st stage).

The possibility for using technologies of the unified pool is provided to clearing members as an additional service exclusively on the basis of the application forwarded to the NCC. The settlement accounts T+ (new and existing) are used as the settlement account of the unified collateral pool. The diagram of replacing the settlement account Т+ by a settlement account of the unified pool is given below:



The main source of assets distribution will be the Trading and Clearing System of the securities market:

 



The transfer of the profiles of assets is given on the following diagram:

**SPECTRA**

 Assets Profiles

 Assets Profiles

 Assets Profiles

**ASTS FX**

**Unified Pool Settlement Account**

 Assets Profiles

**ASTS SM**

The diagram of transfer of the collateral among settlement accounts of the Unified Pool is given below:

Asset

**Market of withdrawal**

**ASTS SM**

**Unified Pool Settlement Account**

**for withdrawal**

 Assets Profiles

**ASTS SM**

**Market of**

**crediting**

**Unified Pool Settlement Account**

**for crediting**

 Assets Profiles

For the provision of a possibility for submitting requests for transfer of cash funds and profiles of the positions on assets through the terminals of the Trading and Clearing Systems the Bank implements the functional, under which such requests can be prepared through using the Trading and Clearing System and forwarded to NCC through the WEB-API Clearing Terminal.

The interaction will be built on the unified formats of electronic messages among the trading and clearing systems of all on-exchange markets and the NCC’s recording system. The first version of the unified document interchange was successfully launched in December, 2016 for a possibility to carry out transfers among all markets (except for the standardized OTC derivatives market).

***B. Project for placement of deposits with the central counterparty***

The Project for Placement of Deposits with the Central Counterparty is planned to be launched in the 1st half of 2017 after the registration of the Clearing Rules by the Bank of Russia and also after the software readiness inspection.

Under the deposit agreement between NCC and a clearing member the Bank places the deposit on the deposit account of the clearing member in the amount and on the terms stipulated by such agreement, undertaking to return the deposit and pay a deposit interest to the clearing member. In this case the money arrives originally to the NCC’s clearing bank account with NSD and recorded as ICC. After NCC credits such cash funds to the deposit account the cash funds are ceased to be considered as ICC. After “the return” of the money from the deposit the cash funds are returned to the ICC content and registered as follows.

The scheme of the conclusion and execution of trades under the deposit agreement is given below:

**Deposit placement\_\_\_\_\_**

**Member of the REPO in GCC**

Money

GCC

GCC

REPO trade

(part 1)

Money

**Deposit trade member**

Deposit placement

**Deposit return**

**Member of the REPO in GCC**

GCC

GCC

REPO trade

(part 2)

Money

(+ interest)

**Deposit trade member**

Deposit return

Money

(+ interest)

This project is the development of the existing GCC REPO on-exchange market due to attracting new liquidity to the market by placing funds to the deposits with the central counterparty. After the project implementation the corporates will get direct access to the existing GCC REPO market (in address and non-address modes), for placing funds. After corporate’s submitting an order for funds placement, provided that a participant submits a counter application for attracting funds to GCC REPO, the orders are matched and two trades are made with the central counterparty: deposit trade between NCC and corporate and REPO trade between NCC and GCC REPO market participant.

This project gives a number of advantages:

* placement of deposits according to the market rates formed in the order book of REPO in GCC quotes without limitations and restrictions of the corporation with regard to counterparties;
* deposit trades are concluded with the highly reliable central counterparty, guaranteeing fulfillment of trades.NCC gets collateral under the REPO, which protects it against the consequeneces of non-settlement of the second part of the trade by the market participant ofREPO in GCC;
* corporation does not receive securities under a trade (like in REPO), and that will release the corporate from the costs of the registration and storage of securities, for whom such activities are not the core one;
* under the deposit agreement with the clearing member NCC takes its funds to the deposit account, undertaking to return the deposit and pay deposit interest to the clearing member.

***C. Clearing terminal project***

The Clearing Terminal Project is planned to be launched in the 1st half of 2018 after the software readiness examination. This project is closely linked with the Unified Collateral Pool Project as it ensures the interaction among the clearing members and NCC.

As a result of the project implementation the software must provide the following:

* modern intellegible graphic web-interface for clearing members to operate their clearing objects, namely: settlement codes, trading and clearing accounts, accounts for return of money etc., and also monitor on a real time basis the state of clearing objects and other clearing data in the markets of Moscow Exchange Group: securities market, money market, FX market, derivatives market (including SFD market) and commodities market;
* modern WEB-API built on the principles of RESTful enabling clearing membersparticipants to use the methods of the Clearing Terminal for buiding the proprietary systems;
* WEB-API of the Clearing Terminal must include the methods which will be called by the trading terminals of Moscow Exchange within the framework of the relaization of the functional of the unified collateral pool, including transfers of the profiles positions for the assets and collaterals of clearing members across the markets;
* EIF DataGrid must be used as a source of data for the Clearing Terminal;
* the software must have a role-based access control providing clearing members with the facilities for flexible administration of the access rights of its users, using the possibilities of the matrix of standard roles and their “fine” setting-up and adjustment, creation of new roles, that will make it possible, in particular, to divide the roles of users in accordance with the internal organizational strucutre of clearing members ;
* required organization of document interchange among the clearing members and NCC:
	+ at the initial stage with using the existing formats of electronic documents through NCC’s EDI;
	+ and thereafter – in the form of electronic documents of xml format, using the Clearing Terminal and WEV-API, including:
		- requests for transfer of the collateral and profiles of the positions for assets;
		- requests for change in the parameters, attached to the settlement codes of the Clearing Members, including risk-parameters;
* the function for supplying to the clearing members any statements of the collateral accounts upon the end of the NCC operation day and debit/credit advices in the course of the NCC operation day;
* possibility for the clearing members to manage brokerage firms, sections of the clearing registers, settlement codes and Trading and clearing accounts in accordance with the Clearing Rules;
* realization of the possibility of access to the Clearing Terminal for the trading participants not being clearing members at the same time, providing the trading participants with a possibility to manage the sections of the clearing registers, settlement accounts and Trading and clearing accounts of level 3, in accordance with the Clearing Rules and agreement to keep clearing registers;
* possibility of acces to review the clearing reports formed according to the clearing results across all the markets;
* API Gateway software component which will prevent DDOS and other types of Internet attacks on the Clearing Terminal;
* inclusion of two-factor model of authentification with the advanced qualified EDS, when the accounts of the Cleraing Terminal users and their rights will be kept in the data base of the Clearing Terminal applications;
* Realization of the “double control” principle enabling the clearing member at its option to request the availability of two signatures under the specicifed types of requests.

***D. Introduction of the cross-margining in the on-exchange markets***

 ***of Moscow Exchange***

In 2017 the subdivisions involved in the process of risk management will continue the joint work on introducing the cross-margining for the major on-exchange markets. In particular, it is planned to introduce intercommodity spreads on related instruments in the securities market (at the first stage – FLB (Federal Loan Bonds). The changes being introduced will make it possible for the participants to manage in a more efficient manner the collateral due to the common margining of instruments, which prices depend on the same risk-factors.

***E. Improvement of the stress-testing approaches and methods***

For the purpose of the compliance with the regulatory requirements of the Bank of Russia in relation to the procedures for stress-testing of the financial stability in 2017 it is planned to develop new stress-scenarios and update the scenario parameters owning to the expansion of the scope of clearing operations in the implementation of business projects in the markets of Moscow Exchange and also with the aim of maintaining the relevancy of the stress-testing parameters to the current market conditions and historical shocks.

In addition to the revision of scenarios and used parameters it is also planned to fix in the internal documents the distinct limits of risk for the purposes of the analysis of the stress-testing results, which will be included into the system of early warning system. Thus, the said updating of the procedures for stress-testing of the financial stability will make it possible to apply to a greater extent in the NCC’s activities the recommendations contained in the Guidelines for Infrastructural Organization of the Committee on Payment and Settlement Systems (CPSS) and International Organization of Securities Commissions (IOSCO).

***F. Commodities market development***

In 2017 the Bank performing the functions of the Commodity Delivery Facility (CDF) plans to expand the list of commodities warehouses (elevators) accredited as bases for supplies of grain (wheat, corn, barley) in the commodities market of NAMEX which comply with all the requirements as to storage technologies and attractive for the clients of Moscow Exchange Group in terms of logistics.

  At the same time it is planned to extend the list of commodities (sugar etc.) acting as underlying asset of traded derivative financial instruments) – delivery futures (traded from December, 2015).

In Q1 2017 it is planned to implement a number of changes, including in the software (UROZHAY TCS) in accordance with the changes in the Clearing Rules for the commodities market adopted by the Bank at the end of 2016, with the main changes being as follows:

* launch of the new derivative financial instrument – swap contract;
* execution of contracts in the commodities market with the participation of the central counterparty.

As a part of the preparation for the 2017 year launch of the Moscow Exchange’s project on trading in delivery forwards, the underlying asset of which is sugar, the Exchange and NCC provide accreditation of warehouses across all regions of sugar production and training of the sector representatives in operating the on-exchange trading and clearing platform. The relevant changes in the clearing rules of the commodities market were already introduced.

The trades will be launched with the support of the Russian Union of Sugar Producers, which members can participate in trading directly or through broker companies.

1. ***Proprietary operations in the financial markets.***

 In 2017 the NCC’s activities in the financial markets will be carried out with the aim of managing the liquidity with taking into account the clearing activities of the central counterparty and proprietary operations in the markets; performance of the procedures of default-management; management of the portfolio of assets for obtaining income according to the planned target of the shareholder.

The main changes in the process of the liquidity management in 2017 will be influenced by the following factors:

* extension of the product range of Moscow Exchange and, in the first place, by introduction of the new instrument – deposits of corporate clearing participants;
* changes in the structure of liabilities – collateral of the clearing participants. The 2016 year saw the introduction of the new type of collateral - stress-collateral recalculated every week, that results in a rather considerable change in the collateral amount under the conditions of uncertainty of its structure (rubles, currency, securities). Thus, the liquidity must be managed subject to the rise of new factors which requires changes in the liquidity management parameters both in time and volume.

The further reduction of the number of credit institutions expected in 2017 in connection with the revocation by the Bank of Russia of licenses will result in a greater number of the default management procedures. The introduction of new instruments traded at Moscow Exchange can affect both the volume of default-management operations and the list of the used procedures and instruments. Thus, with the appearance of the new instrument in trading – deposits of corporate clearing participants the new default-management instruments, like GCC REPO on behalf of the central counterparty can be used.

In 2017 there are no expected material changes in the management of the portfolio of assets with the aim of obtaining income as concerns the used financial instruments. However, there are anticipated changes in the strategy of the formation of assets, which are determined by the expectations for the end of the period of the considerable reduction of the market rates and possible changes in the structure of liabilities depending considerably on changes in the NCC’s clearing activities. Therefore the NCC’s main efforts in 2017 will be aimed at changing of the relation of short-term and long-term financial instruments in rubles part, and in currency part – at reduction of low-yielding balances on the correspond accounts in favor of securities and REPO transactions.

**5. Development results in major operational areas**

**5.1 Clearing activities in the FX market and Precious metals market**

 The FX market of the Moscow Exchange is the oldest organized market in Russia, where foreign currency has been traded since 1992, and since 2013 there has been developing trading and clearing of operations in precious metals. The FX market is the centre of liquidity in cash operations and the most important segment of the national financial system. The Bank of Russia uses the FX market to implement its monetary policy and determines official rates of US dollar and other foreign currencies against Russian ruble, using the results of the on-exchange trading. The fixing of the Moscow Exchange also serves as the basis for the calculation of the settlement price of futures contracts on foreign currency exchange rate.

Today, the FX market and Precious metals market of the Moscow Exchange is a modern market meeting all necessary regulatory requirements and latest technological standards, hosting organized trading in main global currencies and accounting for the major volume of foreign exchange transactions. The convenience and unique nature of the FX market are provided by the unified trading and post-trading infrastructure of the Moscow Exchange Group, providing its clients with a full range of trading, clearing, settlement and information services. Trades are executed in accordance with the rules of organized trading of PJSC Moscow Exchange in the FX market and Precious metals market in the double counter-auction mode. Trades are concluded automatically, progressively as counter-orders with mutually satisfactory prices are entered into the system. Also, there is a separate mode for the execution of the off-the-book trades (two-sided deals). The functions of the trading organizer and technical centre are performed by the Moscow Exchange, and functions of the clearing organization and central counterparty are performed by NCC.

 The Bank has been performing clearing in the FX market since 10 December 2007. Trades concluded on this market are cleared and settled with the participation of NCC acting as the central counterparty. The Bank performs CCP functions for all concluded trades, securing fulfillment of obligations towards non-defaulting clearing members, thus significantly decreasing the risks of clearing members and relieving them from the need to set limits for each other. The FX market trading is conducted in a partially secured way, using a highly efficient and reliable risk management system.

 NCC conducts clearing in accordance with the Clearing Rules. The list of currencies traded in the FX market comprises US dollars (USD), euro (EUR), British pound (GBP), Hong Kong dollar (HKD), Chinese yuan (CNY), Ukrainian hryvnia (UAH), Kazakh tenge (KZT), Belarusian ruble (BYR) and Swiss franc; also, swap trades with various maturities are executed. In respect of the currency pairs USD/RUB, EUR/RUB, CNY/RUB members may execute long swap trades with the following maturities: 1W, 2W, 1M, 2M, 3M, 6M, 9M (only for USD/RUB) and 1Y (only for USD/RUB and EUR/RUB), for GLD/RUB and SLV/RUB - 1W, 1М, 6М. The major currency pairs are USD/RUB and EUR/RUB. The yuan market is developing actively, as well as operations in national currencies of the Eurasian Economic Union (EAEU). The trading time is from 10:00 to 23:50 Moscow time.

In the FX market and precious metals market, NCC clears spot and swap trades, and since 2014 it has been also clearing financial derivatives (swaps and futures) traded with or without full prefunding. The collateral may be posted in cash (Russian rubles, US dollars, Euro, Chinese yuans, Hong Kong dollars, British pounds and Swiss francs) and in precious metals (gold and silver).

Since July, 2016 participants in trading at Moscow Exchange have been provided with access to delivery futures for the currency pairs “USD – Russian ruble”, “Euro – Russian ruble” and “Chinese yuan – Russian ruble”. Moreover, termination of counter similar obligations under delivery futures and swap-contracts is stipulated.

 In the FX market and precious metals market, trades may be executed on the basis of on-order book orders (in “blotter”) or off-order book orders. The trades based on on-order book orders can be executed only with or without full prefunding

 Since 2013, NCC has been conducting central clearing of trades in precious metals for Russian rubles. The clearing of trades in precious metals has been implemented on the regulatory and technological basis of the FX market, for the following purposes:

* expansion of the product range offered by the Moscow Exchange Group to market participants;
* organization for the participants of a new exchange market segment – the precious metals market with a potential to become a highly liquid market;
* creating a framework for settlements in precious metals in the Russian market (Loco Moscow).
* ensuring possibility of application of unified criteria for assessment of credit quality of clearing members, use of the common clearing collateral, and single position in rubles and common settlements in Russian rubles;
* enabling the use of common margining system based on the portfolio approach to risk assessment.

In this segment of the on-exchange market, NCC clears trades which can be settled in the following ways:

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

Since December 2014 in the FX market and precious metals market the institute of “general clearing member»” - clearing member, which is entitled to act as a clearing broker and provide services to the market participants has been established. According to this model market participants submit orders and clearing members become a party to trades and make settlements under the obligations arising from the trade.

After the task implementation clearing members and market participants are provided with the following possibilities:

* clearing members are provided with a possibility to register with NCC settlement account of the 2nd level. Several settlement accounts of the 2nd level opened in the name of market participants or clearing members may correspond to one settlement code of the clearing member (settlement account of the 1st level);
* the market participant not being the clearing member is provided with a possibility to register with the NCC any settlement code of the 3rd level. Several settlement accounts of the 3rd level opened in the name of the market participants’ clients may correspond to one settlement account of the market participant (settlement account of the 2nd level);
* a clearing member is provided with a possibility to set limits for conclusion of trades with the indication of the settlement accounts of the 2nd level registered by him. The market participant is provided with a possibility to set limits for the conclusion of trades with specifying the settlement accounts of the 3rd level registered by him. The given limits are checked in the Trading and Clearing System of the FX market for the coverage in case of presentation of an order on the basis of the pre-order validation technology along with the check held under the settlement account of the 1st level of a clearing member.

The situation, where a market participant is not a clearing member, is given in the following scheme:

**Market Participant Level**

**Market Participant 2**

TCA of 2nd level

Settlement account of 2nd level

(SA of 2nd level)

**Market Participant 1**

TA of 2nd level

Settlement account of 2nd level

(SA of 2nd level)

**Client 2 of**

**market participant**

TA of 3rd level

Settlement account of

3rd level

(SA of 3d level)

**Clients**

**of a Market Participant Level**

**Client 1 of**

**market participant**

TA of 3rd level

Settlement account of

3rd level

(SA of 3d level)

**Clearing Member Level**

Proprietary funds

Settlement account (S)

(SA of 1st level)

TA of 1st level

Clients’ funds

Settlement account (L)

(SA of 1st level)

TA of 1st level

Trust funds

Settlement code (D)

(SA of 1st level)

TA of 1st level

**Clearing Member**

Settlement account (L) of segregated client

SA of 1st level

TA of 1st level

In 2016 there was also a reduction of the collateral for offset positions under euro and US dollar in the risk manageent system due to the introduction of interasset spread, which makes it possible to cut the expenses of market participants and their clients on operations funding. For the purpose of unification of the collateral calculation the interest rate risk for the positions “tomorrow” and and margining of the positions for overnight swaps similarly to for long swaps were started to be used.

For managing the client risks there was implemented the possibility to register thair trading and clearing accounts of the 2nd and of the 3rd level that will enable market participants to use on-exchange risk management for managing the client positions. At the same time they have a possibility for netting as to delivery and collateral within the settlement account, under which various client positions are kept. Withdrawal of funds in the amount of the settlement position enables members to manage in a more flexible manner the intraday liquidity without terminating trading in instruments with “today” settlements.

The Segregation up to the Final Client Project enabled the option for checking payment details for the matching of the beneficiary to the segregated client that makes it possible to protect cash funds of the segregated client.

The introduction of reliable and effective technologies of clearing service and also a qualititative expansion of the range of instruments attractive for investors contributed to the growth of the FX market and precious metals market of the Moscow Exchange Group and influenced positively the result of the NCC performance in the said market. The fees received by the NCC for the clearing service in the FX market for 2016 amounted to 1,765,252 thousand rubles, in the precious metals market – 3,633 thousand rubles.

**5.2. Securities market clearing**

The securities market of the Moscow Exchange Group is a modern market meeting all regulatory and technological requirements, hosting organized trading in major types of securities traded in Russia. The convenience and unique nature of the securities market of Moscow Exchange Group are based on the unified trading and post-trading infrastructure of the Group, providing its clients with a full range of trading, clearing, settlement and information services.

In the securities market of the Moscow Exchange Group, the NCC provides its clients with the most extensive range of services, performing clearing of the trades concluded in different trading modes, either with or without performance of the central counterparty functions. The NCC has been conducting clearing activities in the market since November 1, 2011. Until December 19, 2016 the trading organizer was the CJSC MICEX Stock Exchange, and since December 19, 2016 - - the PJSC Moscow Exchange. Clearing settlements in the securities market are performed by NSD.

In the securities market, NCC performs the following types of clearing:

* ***clearing of partially secured trades***
	+ for buy/sell trades with the central counterparty, concluded on the basis of on-order book orders with the settlement Т+2 (shares, depositary receipts, investment shares, ISU, ETF) and settlement T+1 (FLBs) and also for the trades in the abovementioned securities concluded on the basis of off-order book orders with the settlement from T+0 to T+2;
	+ for REPO trades with the central counterparty, including REPO trades in general collateral certificates, concluded on the basis of off-order book order and on-order book orders;
* ***clearing of secured trades:***
	+ for buy/sell trades with the central counterparty, concluded on the basis of orders (off-order book and on-order book) with settlement T+0 (corporate, regional and municipal bonds) and also for the first parts of REPO trades concluded on the basis of off-order book orders with T+0 execution;
* ***clearing of non-secured trades.***
	+ for REPO trades and buy/sell trades without the central counterparty concluded on the basis of off-order book orders, with settlement of buy/sell trades: from T+0 to T+30, and REPO trades : from T+0 to T+2 (first part), or T+0 to T+365 (second part).

As a method of securing performance of obligations admitted to clearing, NCC uses the individual clearing collateral of clearing members in Russian rubles, foreign currency and securities, and for the clearing of partially secured trades it also uses the collective clearing collateral (default fund).

The Bank performs central counterparty clearing for the following trades concluded with or without full prefunding:

* buy/sell trades with settlement codes Yn,T0 (except placement and redemption trades), K0;
* REPO trades with settlement codes T0/Yn, Ym /Yn.

 NCC performs clearing without central counterparty functions for the following trades:

* buy/sell trades with settlement codes B0-B30, Z0;
* REPO trades with settlement codes Rb, S0-S2, Z0;
* placement and redemption trades with the settlement code T0; and
* share placement trades with the settlement code X0.

In the securities market, trades may be executed on the basis of on-order book (in “blotter”) or off-order book orders. The trades based on on-order book orders can be concluded only with or without full prefunding.

Settlements based on the clearing conducted by NCC are performed both during the trading day and after the trading day, with the following options:

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

The implementation of reliable and efficient clearing technologies attractive for investors had a positive effect on the Bank’s performance results in this market segment. In particular, in 2016, NCC received 4,629,909 thousand rubles for the clearing service provided in the securities market, which is 1,2 times higher than in 2015 (3,811,285 thousand rubles).

**5.3. Derivatives market clearing**

Presently, the Moscow Exchange is a leading financial derivatives exchange in CIS and Eastern Europe, and it ranks in the TOP-10 of the world's largest derivatives exchanges.

Since 2012, NCC has been clearing a wide range of financial derivatives: futures with indices as underlying assets, stocks, currency pairs, interest rates, commodities, and options on the abovementioned futures. Currently, the range of financial derivatives comprises 90 derivative contracts, including 59 futures and 31 futures options.

The transfer of the clearing activity in the derivatives market of the Moscow Exchange to NCC and its subsequent integration with the Group’s securities and FX markets have resulted in the following achievements:

* increase in the trading volume owing to the higher limits set for the clearing organization and the central counterparty, and due to provision to the clearing members of effective unified clearing services on the basis of a unified clearing membership agreement;
* development of the technologies aimed at integrating on the NCC’s base of the clearing of the FX market, securities market and derivatives market of the Moscow Exchange Group, which, in particular, due to the integration between the FX market and derivatives market, enabled clearing members to post foreign currencies (US dollars, euro) as an individual clearing collateral without any restrictions.

The underlying assets of the derivative financial instruments traded at the Moscow Exchange are indices, currency pairs, stocks of the Russian and foreign issuers, interest rates, and commodities:

|  |  |  |
| --- | --- | --- |
| **Securities segment** | **Monetary segment** | **Commodity segment** |
| **Futures**  on:RTS, MICEX indices, Blue Chips Index: most liquid stocks of the Russian\* and foreign issuersvolatility of the Russian market (RVI)Indices of BRICS countries**Futures options** on:most liquid stocks of the Russian issuersRTS and MICEX indices | **Futures** on:currency pairs: USD/RUB, EUR/RUB, CNY/RUB, EUR/USD, AUD/USD, GBP/USD, USD/CHF, USD/JPY, USD/UAH, USD/CAD, USD/TRYinterest rates: MosPrime, RUONIAfederal loan bonds\*Eurobonds of the Russian Federation (RF-30)\***Futures options** on:Currency pairs: USD/RUB, EUR/RUB, EUR/USD | **Futures** on:BRENT oilprecious metals: gold, silver, platinum, palladiumcopperraw sugar**Futures options** on:precious metals: gold, silver, platinumBRENT oil |

 The contracts marked with asterisk “\*” are deliverable. All other contracts are settlement ones.

Trading in the derivatives market is conducted both in the anonymous mode and in the addressed (negotiable) mode.

When executing clearing and settlements under financial derivatives (including variation margin), NCC also performs central counterparty functions, which considerably decrease clearing members risks and relieving them from the need to conduct costly procedures in order to set limits for each other.

In the derivatives market, NCC clears trades concluded:

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

.

The functions of settlement depository and settlement organization are performed by NSD, which is responsible for the following:

* recording clearing collateral in cash funds on the clearing accounts of NCC opened with NSD;
* recording clearing collateral in securities on depo trading accounts of a clearing member opened with NSD.

 The range of acceptable collateral assets comprises Russian rubles as well as foreign currency and securities included into the list approved by the resolution ofNCC and compiled in accordance with the NCC’s approved methodology for selection and assessment of foreign currencies and securities accepted as assets to the collateral.

***In 2016, the Bank undertook measures to further develop clearing services provided to clearing members in the derivatives market, namely:***

* margining under settlement accounts were introduced in the derivatives market; interassets spreads were introduced in the FX market for the purpose of the unification of approaches to the margining system across all the markets of the Moscow Exchange;
* members were provided with a possibility to execute trades in the derivatives and FX markets, to use the service of balancing currency risk between open positions in the derivatives market and unfulfilled obligations in the FX market. This enables them to reduce requirement to amount of collateral of members on offset positions in both markets due to netting of the currency risk;
* since December of 2016 due to the implementation of the universal formats of electronic messages (UFEM) clearing members have been provided with a possibility to transfer cash funds directly between the derivatives market and other markets. For more flexible management of the collateral calculation in the trading system with the aim of preventing any surge in the collateral of clients before expiration of options, a number of additional parameters was added, enabling a broker to set independently the algorythm for the collateral calculation in case of expiration with regard to its clients (number of clearing sessions before taking into account the expiration risks at the level of the sub-account cluster’s/client’s level and also the parameter, controlling the increase of requirements to the collateral for its client subject to the inclusion of the expiration risks).

In 2016 a number of derivative financial instruments admitted to trading on the derivatives market of the Moscow Exchange, which trades are to be cleared by NCC, was supplemented by the RUONIA rate futures. These instruments enable the participants to hedge their risks on the market of overnight interest rates. Moreover, in 2016 the range of options was extended due to the introduction of futures options on stocks of such Russian issuers as the JSC NLMK. Trading in futures on ordinary shares of the JSC ALROSA started in October 2016.

The fees received by NCC for clearing services in the derivatives market for 2016 amounted to 24,545 thousand rubles, which is 1,17 time higher than the similar indicator for 2015 year - 21,068 thousand rubles.

**5.4. Commodities market clearing**

In the reporting period for the purpose of the commodities market development the Clearing Rules on the Commodities market have been worked out, agreed, approved, registered by the Bank of Russia and posted on the NCC’s site as well as the documents describing the software changes required tor the project implementation.

 The following changes have been made in the Clearing Rules for the commodities market:

* ­The model of execution of contracts in the commodities market was changed - the execution is performed without conclusion of a spot contract between clearing members;
* ­the clearing procedure was modified for swaps: for clearing members of the category “B”: for the first part of swap contract the clearing of secured trades for commodities and clearing of partially secured trades for cash funds will be used;
* ­one clearing member was provided with a possibility to use various legal models of segregation of the statuses of trading participants and clearing member: model of clearing broker (for execution of trades not in the interests of such clearing member) and model of agency contract (for the conclusion of trades in the interests of such clearing member);
* ­the procedure was introduced to check the possibility for the registration of combined orders – orders submitted by a market participant with the aim of concluding a forward contract, being simultaneously orders to conclude a swap contract;
* ­the provisions on charging fee for the right to use cash funds constituting the individual and/or collective clearing collateral were brought into line with the changes made in the Tax Code of the Russian Federation.

**5.5. OTC derivatives market clearing**

The standardized OTC derivatives market was founded to implement the provisions of the communiqué adopted at the G20 meeting in Pittsburg in 2009, where the G20 leaders expressed their agreed position on the need to transfer OTC derivatives trading to exchanges and ensure that they are cleared by the central counterparty.

NCC has been clearing trades in the market for standardized financial derivatives (OTC derivatives) of the Moscow Exchange Group since 2013. Being central counterparty for the OTC contracts in the standardized OTC derivatives market, the Bank also performs the functions of the informing entity and submits to the repository the information on the OTC contracts concluded in the standardized OTC derivatives market.

 In 2016 NCC continued to perfom clearing and central counterparty functions in the OTC derivatives market against the background of continuing development of instruments in this market segment. In the beginning of the reporting year the new versions of OTC specifications of the existing instruments developed earlier came into effect: currency option and interest rate swap and OTC specifications of the new instruments: currency swap and currency forward. For expanding the range of available instruments the specification was developed for the new OTC instrument – currency-interest rate swap, the conclusion of contracts with which will be available for the standardised OTC derivatives market participants in early 2017.

 For expanding the possibilities of the standardized OTC derivatives market participants a certain work has been performed through adding new available currency – euro. For this purpose the new versions of the on-exchange and OTC specifications and Methodologies of Risk Calculation in the standardized OTC derivatives market have been developed. The new currency – euro will be available to participants in the beginning of 2017. In order to unify the Clearing Rules NCC worked out a new version of the Clearing Rules in the standardized OTC derivatives market on the basis of the unified format of the Clearing Rules of the Bank on other markets. The new version of the Clearing Rules in the standardized OTC derivatives market was registered by the Bank of Russia on 28.10.2016 and comes into effect in the beginning of 2017.

 With the aim ot reduce the costs of members they were provided with a possibility to withdraw cash funds immediately after the clearing session. This is especially important for the members, where the nominals under the contracts concluded in the standardized OTC derivatives market are exchanged.

In the reporting year the quantity of members of the standardised OTC derivatives market increased up to 37. The volume of nominal value under the concluded contracts in this standardized OTC derivatives market segment amounted to 18 bil rubles; fees received by the NCC for clearing in the derivates market for 2016 constituted 632 thousand rubles, which is 1.4 time higher than the similar indicator for 2015 year – 456 thousand rubles.

**5.6. Performance of the functions of commodity delivery operator**

The Moscow Exchange Group has been trading in agricultural products since December 2015. JSC NCE provides the trading floor. According to the results of trading clearing of partially secured trades is available. From the very start of the on-exchange trading the underlying asset of traded derivatives – delivery futures with floating date of settlement was wheat. Corn and barley became available as underlying assets for the members in 2016.

NCC, acting as a clearing organization in the commodities market of the NAMEX, has obtained accreditation of the Bank of Russia as the Commodity Delivery Facility (CDF). This function is stipulated by the legislation and provides the recording of commodities transferred to the CDF for the storage on commodity accounts. Commodities are stored in the accredited commodity warehouses (elevators, if grain). At the time of start of on-exchange trading, the CDF accredited 4 elevators of Volgograd Region and Stavropol Territory. In 2016 the CDF accredited 21 elevators, extending the geography of delivery basis to Vladimir, Voronezh, Lipetsk, Omsk, Penza, Tambov, Ulyanovsk and Chelyabinsk Regions, Krasnodar Territory and the Republic of Bashkortostan.

The commodities market development plan of the NAMEX provides for the central counterparty clearing of trades and delivery of commodities (underlying asset of forward contracts) from a seller to a buyer. During the trading the opportunity to make a contract for commodity transportation up to any railway station of the Russian Federation (forwarding contract) is stipulated for the market participants and their clients. For the provision of forwarding services to the market participants and clearing members the NAMEX created a separate organization – National Logistics Company, LLC.

**6. Proprietary operations in financial markets**

In 2016 NCC conducted proprietary operations in the financial markets taking into account the main factors influencing the Bank’s activities in this vector:

* reduction of the collateral volume of clearing participants in cash;
* higher expectations of the financial market for decrease of the ruble key rate by the Bank of Russia;
* continuing trend for decrease of the number or clearing members s due to revocation of licenses of credit institutions by the Bank of Russia.

The reporting year saw continuing reduction of the collateral of clearing members in rubles and more considerable in USD (ref. to Table 1), that was caused both by external factors (sanctions and, as a result thereof, reduction of the liquidity of Russian banks in USD), and by domestic factors (reduction of the collateral share in USD and Russian rubles in favor of euro, precious metals and securities). At the same time the reduction of ruble collateral in the NCC liabilities was compensated by the growth of proprietary funds from с 47,678 mln rubles in 2015 in annual average terms up to 56,387 mln in 2016 (+8,709 mln or 18%).

Table 1

|  |  |  |  |
| --- | --- | --- | --- |
| **Collateral of clearing members, annual average** | **RUB, mln** | **USD, mln** | **EUR, mln** |
| 2015 | 80,689 | 6,090 | 4,891 |
| 2016 | 74,258 | 4,139 | 5,128 |
| Change, mln | - 6,431 | -1,951 | +237 |
| Change, % | -8% | -32% | +5% |

Thus, 2016 saw the formation of the factors, leading to expectations for reduction of Bank’s income from operations in the financial markets. In this situation, as concerns operations in the financial markets, the main efforts were concentrated on modification of the assets structure with the aim of reducing the influence of market trends on the dynamics of interest income.

 Under the conditions of growing expectations for reduction of the ruble key rate, the determinant strategy was to form long-term assets at prevailing rates with the aim of providing the high level of interest income both in the current year and in the long-term. Therefore the main efforts were directed to increase of the share of securities in the total volume of assets, bringing interest income. Thus, the share of securities in ruble assets increased from 62 to 74% in annual average terms against 2015. At the same time the share of short-term earning ruble assets decreased from 26 to 18% in annual average terms. Such reallocation was possible as the volatility of ruble liabilities decreased simultaneously with reduction of the ruble collateral of clearing participants.

Material changes occurred also in the currency assets. The reduction of USD liabilities supposed also reduction of interest income on currency assets accordingly, especially against the background of low rates. Such situation served as a reason to implement the strategy designed to reduce the share of cash on the correspondent accounts in favor of more profitable financial instruments. As a result, the portfolio of eurobonds was increased considerably (ref. to Table 2).

Table 2.

|  |  |  |
| --- | --- | --- |
| **Volume of portfolio of eurobonds (annual average)** | **USD in ruble equivalent, mln** | **EUR in ruble equivalent, mln** |
| 2015 | 19,056 | 896 |
| 2016 | 71,765 | 10,318 |
| Change, mln rubles | + 52,709 | + 9,422 |
| Change, % | + 277% | + 1,052% |

In addition to Eurobonds, for the purposes of additional diversification of currency assets both by issuers and by maturities, in 2016 NCC began operations on USA treasury bonds operations. For the purposes of increasing the earning power of currency assets in 2016 NCC used in a more intensive manner the reverse REPO trades (ref. to Table 3).

Table 3

|  |  |  |
| --- | --- | --- |
| **Volume of reverse REPO (annual average)** | **USD in ruble equivalent, mln** | **EUR in ruble equivalent, mln** |
| 2015 | 14,895 | 10,940 |
| 2016 | 34,424 | 9,662 |
| Change, mln rubles  | + 19,529 | - 1,278 |
| Change, % | + 131% | - 12% |

 NCC continues to pay considerable attention to the credit quality of assets and, in the first order, the portfolio of securities. In 2016 the high credit quality was provided by, among other things, maintaining the high shares of Russian Federation bonds in the NCC’s portfolio. In particular, the share of government bonds in rubles in the NCC’s portfolio in 2016 increased nearly by 7% in annual average terms against 2015 (up to 63.13 from 56.28%).

Transactions on securities were carried out with permanent control over one of the risk exposure indicators – portfolio duration. In 2016 the duration of the NCC’s portfolio was maintained practically unchangeable: 1.33 year as at 31.12.2016 against 1.28 year as at 31.12.2015.

 In the reporting year within clearing activities NCC continued conducting transactions on precious metals. During the year the Bank conducted Location SWAP operations with gold in the volume of 200 kg and operations of reception/withdrawal of physical gold in the volume of 885 kg, silver in the volume of 298 kg. In addition, for the purposes of more effective use of the residuals of precious metals on depersonalized metal accounts NCC started performing operations on placement of gold to deposits. The total amount of placed deposits amounted to 7,216 kg of gold.

In 2016 the Bank continued to perfect the default-management procedures. The default-management procedures and interaction between the NCC subdivisions during the performance thereof were formalized on the basis of the actually performed transactions on carry-over of the positions of clearing participants in case of technical defaults or closing of positions in case of revocation of licenses. The Bank developed the Regulations of Interaction of the Treasury Operations Centre with the NCC Subdivisions during its performance of operations within the procedures of default-management in the FX market and precious metal market, Regulations of Interaction of the Treasury Operations Centre with NCC Subdivisions during its performance of operations within the procedures of default management in the derivatives market and entered changes in the Regulations of Interaction of the Treasury Operation Centre with NCC Subdivisions during its performance of operations within the procedures of default management in the securities market, when performing the functions of central counterparty.

 The quantity and volume of operations in the financial markets within the procedures of default-management changed inconsiderably against 2015 (ref. to Table 4). The continuation of reduction of the quantity of clearing members in connection with revocation by the Bank of Russia of licenses from credit institutions resulted in increase of the quantity and volume of closed positions. However as before the greatest quantity of transactions are made within the carry-over of the positions of participants, i.e. technical defaults. The stability and relatively small number of transactions within default management and their volumes every year (ref. to Fig. 1) make it possible to conclude on the high degree of reliability of markets with participation of central counterparty.

 Table 4.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Operation | Quantity of operations | Change against 2015, % | Volume, mln rubles | Change against 2015, % |
| FX market |
| *Carry-over of positions (SWAP)* |   |   |   |   |
| USD | 205 | -31% | 74,596 | -10% |
| EUR | 117 | 3% | 8,518 | -34% |
| CNY | 21 | 40% | 1,541 | 218% |
| GBP | 11 | -59% | 133 | -50% |
| HKD | 3 | 50% | 4,965 | 496,400% |
| BYR | 0 | -100% | 0 | -100% |
| SLV | 1 | 0% | 0.068 | 11% |
| CHF | 2 |   | 4 |   |
| GLD | 2 |   | 0.006 |   |
|   |   |   |   |   |
| *Regulation of marginal requirements*  |   |   |   |   |
| RUB | 34 | 143% | 911 | 34% |
| *Closing of positions* |   |   |   |   |
| USD | 9 | -36% | 796 | -96% |
| EUR | 6 | -45% | 1,325 | -80% |
| CNY | 0 |   |   |   |
| Securities market |
| *Carry-over of postions (REPO+SWAP+P/S)* |   |   |   |   |
| RUB | 536 | -17% | 37,282 | 9% |
| *Closing of positions (purchase-sale +LN+Т+2)* |   |   |   |   |
| RUB | 13 | 117% | 18,434 | 2,560% |
| Derivatives market |
| *Closing of positionй* |   |   |   |   |
| RUB | 4 | 100% | 88 | 389% |
| TOTAL |
| USD | 214 | -31% | 75,392 | -27% |
| EUR | 123 | -2% | 9,843 | -50% |
| CNY | 21 | 40% | 1,541 | 218% |
| GBP | 11 | -59% | 133 | -50% |
| HKD | 3 | 50% | 4,965 | 496,400% |
| BYR | 0 | -100% | 0 | -100% |
| CHF | 2 |   | 4 |   |
| GLD | 1 |   | 0 |   |
| SLV | 0 | -100% | 0 | 11% |
| RUB | 587 | -12% | 56,715 | 59% |

Fig.1

 In 2016 the work for increasing the efficiency of performance of settlements under trading results in the FX market of Moscow Exchange continued. The additional clearing account in Chinese yuans was opened for the convenience of clearing members.

For the purposes of trading in national currencies of CIS countries the efforts were continued to establish correspondent relations with the national central banks of CIS countries. In particular, the correspondent account in Kazakhstan tenge was opened with the National Bank of the Republic of Kazakhstan and the work was started to provide connection to the national payment system of the Republic of Kazakhstan, that will make it possible to spend clearing of trades in Kazakhstan tenge in the FX market of Moscow Exchange without full prefunding.

In 2016 the NCC’s portfolio of assets was formed on the basis of the forecasts of gradual reduction of rates in the Russian financial market. The main market movement in this direction is expected in 2017 and the task of building the strategy of formation of assets at the low level of ruble rates will become important, with keeping non-critical levels of the credit risk, interest rate risk and liquidity risk.

**7. Risk management, including measures aimed at maintaining high management quality of NCC as a CCP**

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

NCC, functioning as a central counterparty, clearing organization and commodity delivery operator (hereinafter- CDO) in the markets of the Moscow Exchange Group, performs its activities using an up-to-date risk management framework (RMF), complying with the international standards.

Based upon its functions and objectives, NCC has a specific risk structure consisting of the following interconnected groups:

* risks inherent to NCC as central counterparty and clearing organization;
* risks of banking activities;
* CDO risks.

The NCC’s risk management framework covers the following range of risks:

* central counterparty risk (CCP credit risk);
* credit risk;
* market risk;
* interest rate risk in the banking book;
* liquidity risk;
* operational risk;
* strategic risk;
* legal risk;
* regulatory risk;
* reputational risk;
* custody risk;
* commercial risk;
* systemic risk.

The NCC’s key objectives are to decrease risks in the financial system and to maintain stability in the serviced segments of the financial and commodity markets. The achievement of these objectives is facilitated by implementation of a risk management framework, whereby NCC conducts a comprehensive analysis of the risks arising in course of performance of all types of activities.

To ensure its operational reliability, NCC applies the risk management methods stipulated by the requirements of the Bank of Russia, recommendations of the Basel Committee for Banking Supervision, as well as international standards of the Committee on Payment and Settlement Systems of the Bank for International Settlements and the Steering Committee of the International Organization of Securities Commissions (CPMI-IOSCO) for systemically important infrastructural organizations. In the reporting year, the NCC’s activities aimed at improving its risk management framework were focused on consistency with the requirements of the Ordinance of the Bank of Russia dated 02 December, 2012 No. 2919-U “On the management quality assessment of a credit institution performing central counterparty functions” (hereinafter the Regulation No. 2919-U).

In 2016 NCC entered a number of amendments into its internal documents regulating the risk management of CCP. These amendments were connected with the planned revision of the documents developed in pursuance of the requirements of the Bank of Russia with regard to introduction of internal procedures for assessment of the capital adequacy of a credit institution (Ordinance of the Bank of Russia No. 3624-U “On requirements for risk and capital management framework of credit institution and banking group”) as well as with regard to the improvement of the risk management framework of a clearing organization, central counterparty and commodity delivery operator. In particular, as a result of the annual scheduled revision, the amendments were made in the following documents:

* Risk and capital management strategy, the new version of which contains updated results of identification of the most significant risks and an updated set of risk appetite benchmarks for 2017;
* Bank’s risk appetite benchmarks for the year 2017 which set forth the thresholds for quantitative and qualitative indicators of the level of significant risks for the forthcoming year for subsequent quarterly monitoring;
* Methodology of the Bank’s economic capital assessment, containing the description of the approaches used by NCC to evaluate the required capital to cover the most significant risks both at the individual and at the aggregated level. The new version of the Methodology of economic capital assessment contains the updated procedure for calculation of the capital requirements to cover the market risk and description of the procedure for calculation of capital buffer to cover possible losses under stress conditions with regard to credit, market and operational risks.

The improvement of methodology base of the processes associated with risks and capital management remains one of the most important elements of the NCC’s activities.

# **Managing risks inherent in clearing and CCP activities**

In 2016, the development of the NCC's risk management system was primarily focused on ensuring financial stability and reliability of the Bank as a clearing organization and central counterparty, and was carried out in the following main directions:

* ensuring adequacy of financial resources for settlements under regular and extreme market conditions;
* setting up arrangements protecting against potential losses in case of default of clearing participants;
* improving risk assessment methodology required for NCC to provide new clearing products and expand the range of cleared instruments;
* implementing measures to ensure that current activities of NCC comply with the Bank of Russia’s requirements for the central counterparties whose management quality has been recognized as “satisfactory” in accordance with provisions of the Ordinance No. 2919-U;
* providing information transparency which allows clearing members to adequately assess risks, and helps supervisory authorities to control their activities efficiently.

## ***Margining system of clearing members’ trades***

NCC uses various models to determine collateral requirements, depending on the specific market. The model for determination of collateral requirements takes into account the specifics of instruments and, accordingly, is applied with minor differences accounting for the markets specifics.

In the FX market, securities market and commodities markets, due to linearity of instruments relative to the risk factors, a simplified approach is used, which features 2 scenarios for each instrument (growth and downturn), also taking into account the size of the position, by means of concentration limits.

The set of scenarios used in the derivatives market is chosen accounting for possible presence of non-linear instruments in the position, and, therefore, the set of spot risk scenarios expands to 23, and also the scenarios of possible change of implied volatility are considered.

 In the SFD market NCC also uses the scenarios of interest rate curves / implied volatility curve shifts determined using the principle component method (shift – twist – butterfly).

The scenarios used in the margining models are calibrated using historical data, and also considering the potential scenarios of price movements that are not yet reflected in historical data, so as to secure in all markets at least 99% confidence probability for the required collateral size.

The types of assets accepted as collateral also vary, depending on the specific market:



##  ***CCP safeguard structure***

While developing the system of managing all types of risk, NCC continued to improve the structure of CCP safeguard levels aimed at ensuring the reliable and transparent interaction with clearing members and guaranteed maintenance of NCC financial stability in connection of its performance of the functions of central counterparty. NCC consolidated the structure of CCP safeguard levels due to the taken measures (section 3 of this Report).

CCP’s new safeguard structure is given in the figure below:



According to the international operational standards for clearing organizations – central counterparties, the level of risk coverage by collective funds is considered to be sufficient provided that, within a short period of time, these resources can cover maximum risk for at least one or two default positions. NCC aims to cover maximum risk arising from default of 2 largest clearing participants, which exceeds the requirements of the international standards.

In order to provide additional protection for the non-defaulting clearing members their contributions to the Guarantee Fund are used only when the amount of total debt of the defaulting clearing members to NCC exceeds the maximum acceptable value. As of now in all serviced markets of Moscow Exchange Group, the guarantee fund may be used as an instrument to cover losses in the event of clearing member’s default. The size of guarantee funds as of 01 January 2017 is given in the table below:





***Financial conditions’ monitoring of clearing members***

 NCC uses internal rating system as an efficient instrument for monitoring financial condition of clearing members and counterparties on active trades. The use of formalized internal ratings enables prompt response to deterioration of financial condition of the clearing members and counterparties, as well as establishment of limits for active trades and making of adequate provisions for possible losses on risk-bearing operations.

Assignment of internal ratings is carried out in accordance with the NCC's current Methodology of determination of internal ratings of counterparties. In 2016 for the purposes of determining the financial condition of new categories of counterparties and perfection of separate indexes for the calculation of internal ratings the new version of the Methodology of determination of internal ratings of counterparties was approved, in which the following main amendments were made:

* rating scale was extended by two categories: D (default) and NR (no rating); the procedure and conditions for assignment of ratings were defined;
* the measures of advanced control in relation to problem counterparties were described;
* the models for calculation of ratings of new categories were added.

Assignment of internal ratings includes the following elements:



The sources of information for determining the internal rating include the financial reports and other information on the clearing members and counterparties which is significant for assessment of the level of risks undertaken for them. The internal rating is the result of the aggregate point assessment of financial and non-financial indices and can be corrected according to the results of the expert assessment (with taking into account the information on the structure of owners, data on the development of the counterparty’s business, market positions of the clearing participant on separate market segments, dynamics of the value of the stock issued by them, other important information).

As at 01.01.2017 the NCC’s system of internal rating assignment covered 907 organizations. The breakdown by types of NCC rated clearing members and counterparties as at 01.01.2017 is given in the table:



#  **Managing banking risks**

NCC, due to its special status and types of activities, follows a conservative asset management policy in allocation of free cash.

 The major elements of managing risks arising in course of banking operations include:

* assets and liabilities portfolio management;
* monitoring of financial condition of counterparties;
* setting limits;
* making provisions for possible losses to cover risks;
* refusal to bear certain types of risks.

***Credit risk management***

Relative to the NCC’s banking activities, the credit risk arises as a result of NCC’s investment operations.

The credit risk management process is briefly presented in the figure below:



 The investment activity of NCC, the criteria for selection of counterparties and instruments in allocation of free cash, as well as maturities taking account of market liquidity of the instruments are regulated by the Bank’s Treasury Policy.

The main provisions of NCC’s investment policy ensure sufficient return on assets at moderate risk level:



The cornerstone of control of credit risks arising in course of cash allocation is the limiting of treasury operations. The existing system of limits enables limiting of the volume of risks assumed by NCC to the level corresponding to the guaranteed performance of regulatory requirements of the Bank of Russia and the Treasury Policy of NCC.

 As of 01.01.2017, the major portion of NCC's assets exposed to credit risk comprised the funds placed on correspondent accounts with credit institutions, mainly in the major foreign banks and the most reliable Russian banks. The largest volume of assets was placed on correspondent accounts with JP Morgan Chase Bank and its subsidiaries due to their performance of functions of settlement banks in the on-exchange FX market of Moscow Exchange Group.

Information on the grouping of assets by the level of their S&P international rating as well as distribution of NCC’s aggregate securities portfolio by sectors of debt issuers is shown in the diagrams:





Thanks to the high quality of assets, the capital adequacy ratio (normative H1.0) as at 01.01.2017 amounted to 19.4%, against the regulatory minimum in 8%, that confirms expressly the NCC financial stability.

## ***Market risk management***

The CCP's activity is exposed to market risk only in case of credit risk event. Therefore, market risk management is performed as a part of the range of credit risk management measures.

For the purpose of quantitative assessment of market risk for various markets where NCC acts as a CCP, the methodology was developed to be used, in particular, to determine the volume of requirements to the size of collateral posted by the clearing members. .

 The major purpose of market risk management in allocation of temporarily free cash is optimization of the risk/return balance and minimization of losses in case of unfavorable events. To this end, NCC:

* diversifies its securities portfolio (by maturities and issuers’ industries);
* sets maximum expiration dates for security investments;
* sets maximum limits of investments in securities (for the entire volume of investments, types of investments, and issuers);
* performs classification of debt obligations and securities by risk groups; and
* forms provisions for possible losses from securities transactions, unless such securities are revaluated at fair prices.

 NCC is exposed to interest risk on securities and financial derivatives sensitive to interest rate fluctuations, and on derivative trades in securities sensitive to interest rate fluctuations, as shown in the table below:



As of 01.01.2017 the size of interest rate risk amounted to 19.62% of Bank’s capital (equity) (vs. 10.8% as of 01.01.2016).

Interest rate risk is calculated as the sum of general interest rate risk associated with unfavorable change in current (fair) value of securities and financial derivatives, as a result of the market fluctuations of interest rates, and of the specific interest rate risk, due to the factors related to the issuer of securities, given the time period to expiration and taking into account the currency in which the securities are denominated.

There is no equity risk, as there are no equity securities in the Bank’s securities portfolio. NCC is exposed to currency risk in case of unfavorable exchange rate movements. As of 01 January 2016 and 01 January 2017, open positions in foreign currencies and precious metals accounted for less than 1% of capital (equity), and therefore NCC is not sensitive to currency risk. Throughout 2016, the size of market risk was considered as not generating potential losses which would have threaten the NCC’s financial stability

## ***Management of interest rate risk in the banking book***

Management of NCC’s interest rate risk of the banking book is carried out as a part of the management of market risk of NCC banking. The interest rate risk in banking book is assessed on the basis of the analysis of the volume and structure of balance sheet and off-balance sheet claims and liabilities included into the bank’s portfolio.

 The source of interest rate risk is an unfavorable change in interest rates which may cause to the Bank potential losses due to mismatching of maturities (revision of interest rates) of assets and liabilities sensitive to interest rate fluctuation, with parallel shift, change of slope or form of the yield curve and also rise of the basis risk arising from different sensitivity of assets and liabilities of the same maturity to interest rates change.

For assessing the level of the assumed interest risk the Bank uses the interest rate risk calculation methods –GAP analysis and duration method. In 2016 the interest rate risk in the banking book was within the admissible values approved by the NCC Management Board.

## ***Liquidity risk management***

The conservative asset management policy contributed to maintenance of the liquidity level sufficient to fulfill the NCC payment obligations, primarily, as the CCP. The liquidity management is aimed at ensuring NCC's ability to perform its obligations under normal market conditions and in cases of unforeseen emergencies without suffering unacceptable losses or risk of harming its business reputation.

NCC’s liquidity ratios exceeded regulatory ratios for credit institutions significantly in 2016, as shown in the table below:

**Fulfillment of liquidity ratios, as of 01 January 2017, %**



*Liquidity risk management includes the following procedures:*

* forecasting payment flows with breakdown by major currencies and determining the required volume of liquid assets;
* monitoring and forecasting liquidity ratios;
* maintaining immediate, current and long-term liquidity at regulatory levels;
* planning measures to recover the required liquidity level in unfavorable and crisis situations;
* setting limits and restrictions on transformation of cash in other types of assets: on transactions with securities, depending on the type and maturity of securities, limit of open FX position;
* composing an optimal structure of assets in accordance with resource base;
* taking into account the maturities of raised funds and their volumes when allocating assets in financial instruments;
* analysis of negative scenarios of liquidity shortage; evaluation of the framework for responding to this risk; improvement of tools and methods of liquidity management

NCC performs liquidity management in real time on the basis of the payment calendar by means of measures to optimize cash flows, improve operations regulations of active operations, settlements and correspondent relations. Liquidity status is assessed on the monthly basis by means of liquidity gap-analysis (analysis of assets and liabilities by maturities) and calculation of liquidity shortage (excess) and accruing liquidity shortage (excess) ratio by maturities, taking into account the refinancing instruments. The detailed analysis of liquidity based on the NCC’s internal models is performed by means of the precise adjustments of the accounting data in terms of composition, amounts and maturities of assets and liabilities.

The monthly liquidity ratios monitoring shows that there was no shortage of liquidity in 2016 within all periods as shown in the given diagram:

**Liquidity risk indicators as of 01.01.2017**

(assessment on the basis of the Bank’s internal models)



## ***Operational risk management***

The NCC operational risk management system is a part of the general risk management system; its functioning is aimed at providing continuity of NCC activities, including uninterrupted functioning of its own systems and processes and critically important services. The efficiency of its functioning is provided by the multi-level structure, including distinct distribution of powers and functions among the operating units, committees, governing bodies that complies with the best world management practices. The operational risk management system is built with taking into account the recommendations of the Bank of Russia, Basel Committee on Banking Supervision and also CPMI-IOSCO.

The operational risk management includes the following stages:

* collecting data on the operational risk events occurred in the Bank by accumulating the information in the data base of operational risk in accordance with the approved algorithm;
* identifying potential operational risks by means of self-assessment procedures;
* analyzing and assessing the identified operational risks;
* developing measures to eliminate the consequences of a specific event of operational risk and measures to minimize occurrence thereof in the future;
* informing the management bodies on the periodic (monthly) basis about the operational risks and control over implementation by them of the measures to minimize the operational risk on the occurred event of operational risk on a quarterly basis;
* NCC’s reporting, as a qualifying CCP, on the periodic (monthly) basis to the regulator (Bank of Russia) on the list of registered incidents and identified operational risks.

The methodological basis for the effective functioning of the operational risk management system is provided by the NCC internal documents, defining:

* monitoring operational risks by using the operational risk indicators system;
* identifying operational risks for news products and processes in the process of their development;
* collecting and analyzing data on operational risk events occurred in other organizations similar to the Bank in terms of their activity profile with the aim of their influencing on the NCC activity;
* developing measures to handle operational risk and control the implementation of operation risks mitigation;
* checking the NCC resistance to failures of operational and informative systems at least once a year;
* upgrading the skill of employees with regard to operational risk management;
* system of incentives for average employees for revealing any operational risks in the process of work;
* policy of separation of access rights in data entering and processing, decreasing the risk of unauthorized or erroneous acts of employees of the relevant NCC subdivisions;
* policy of separation of infomedia at all stages of the life cycle of information systems.

Operational risk is mitigated primarily through the use of reliable hardware, information and technology systems, multi-level control of operational procedures and high qualification of personnel.

The structure of the risk management system comprises the Supervisory Board, CEO and the collective executive body, the employee in charge of operational and strategic risk management, and other employees of the organization. The Supervisory Board determines the key principles of operational risks management, including integration of risk management system into the decision-making process and involvement of all company employees in the risk management process. Executive bodies provide the management structure with unambiguous responsibility lines and application of established principles at all levels of the organization.

The comprehensive approach to mitigating the operational risks (personnel, processes, systems) implemented by NCC implies, in particular, the implementation of the system for determination of process automation priorities (with risks taken into account), performance of regular risk audit of business processes, maintenance of current accounting of information assets (information systems, facilities, channels of communication), reserving of communication channels, and implementation of project and service approach in the subdivisions’ operations.

The Bank mitigates the operational risk through preventive and corrective internal and external control activities, which include, in particular the implementation of new access control procedures, software and hardware; separation of rights of users/administrators of information systems, data backup, analysis of the existing control measures and development and implementation of the new control measures.

The Bank performs regular analysis of key processes, which results in implementation of new technologies decreasing the level of operational risk. In case of launching of new products and services, the Bank conducts a comprehensive multifactor analysis of the project, including assessment of operational risks.

For the purpose of improving the framework for the operational risk management in the Bank, in 2016, the NCC’s Supervisory Board adopted an updated the Operational Risk Management Policy. This document describes in detail the approaches to identification, analysis and control of operational risk, procedure of interaction between NCC and PJSC Moscow Exchange in the process of operational risk management.

An independent external audit of the information security system is conducted on a regular basis (in particular, in 2016 the Bank arranged an audit to check the compliance with Standard STO BR IBBS-1.0-2014; audit to check the compliance with the requirements of 161-FZ “On National Payment System”; complex audit by the Central Bank; financial audit for the year 2016).

Special attention is paid to ensuring continuity of the Bank’s activities – key information systems have reserve channels and capacities; information is properly stored in electronic archives; performing its functions of a clearing organization and central counterparty, NCC assumes the need to be prepared for any events which can result in suspension of standard operational procedures. The Regulation of the Bank of Russia dated 16 December, 2003 No. 242-P “On organization of internal control in credit institutions and banking groups" obliges credit organizations to develop business continuity and recovery plans to be used in case of emergencies. Following the regulator’s requirements, NCC has developed and implemented a state-of-the-art business continuity management system, taking into account the recommendations of the Central Bank of Russia of 20.05.2016 No.17-MR “Methodological recommendations on development of plans for recovery of the financial stability by infrastructure organizations of the financial market”.

 In implementation of its business continuity processes, NCC uses the methodology of the international standard ISO 22301 (Social security - Business continuity management systems – Requirements). The major elements of this approach are:

* business continuity policy- the document approved by NCC’s Supervisory Board, regulating the work related to ensuring business continuity within NCC;
* assessment of business continuity risks – the process of identification of risks, their analysis and assessment of their influence on the NCC’s business;
* analysis of business effect – this is an analysis of all NCC’s processes in terms of how they can possibly be affected by various types of incidents in the course of time. This analysis is conducted at least annually, covering all structural subdivisions of the Bank;
* crisis management – this is a determination of high-level strategy to ensure the NCC's business continuity, including pre-developed arrangements for resolution of various crisis situations;
* business continuity strategy – a developed strategy describing the principles of building short-term, medium-term and long-term business continuity management systems;
* business continuity and recovery plan - a documented procedure to be used in case of an emergency. The plan contains the list of measures to maintain critical business functions at the pre-determined and agreed level;
* recovery plan – a documented process for recovery and protection of IT infrastructure and systems in case of an emergency;
* incident management – a clearly defined and documented action plan to be used in case of an emergency, in order to minimize the effect on personnel and critical business processes;
* crisis communications – these are the documented priorities in communications in case of an emergency, which contain pre-developed samples to be used for notification in the external and internal environments;
* testing and exercising - an important process developed to determine adequacy, planning quality and organizational efficiency of the business continuity process.

In accordance with the business continuity strategy and based on business requirements, NCC has established alternative sites (geographically separated back-up offices), which are activated in case of realization of the scenario of inaccessibility of the primary offices. To assess the NCC's level of maturity in the area of business continuity, the Bank regularly prepares reports on the key indicators of the business continuity management system and presents them to the NCC’s management bodies.

## ***Strategic risk management***

The NCC’s strategic objectives are defined in the NCC Strategy for the Years 2017-2020 developed in accordance with the Strategy of Moscow Exchange Group for the Years 2015-2020 and approved by the Bank’s Supervisory Board. Strategic risk is the risk of unfavorable change in performance results due to wrong decisions made in course of managing NCC, including the decisions made in course of development, approval and implementation of the NCC's development strategy, improper execution of the decisions made, and inability of the NCC's management bodies to consider changes in external factors. Thus, the effective strategic risk management is a passport to success in achieving the strategic objectives during the strategy implementation.

The strategic risk management system takes into account the NCC’s risks arising in the course of combination of banking and clearing activities, function of central counterparty and commodity delivery operator.

In the process of strategic risk management, NCC is governed by the following principles:

* correspondence of the strategy to the nature, capabilities and scope of the NCC’s activities;
* making prompt changes in the NCC strategic objectives in case of any change in external and internal factors;
* availability of a possibility for quantitative assessment of relevant strategic risk parameters;
* regular monitoring of the strategic risk parameters size;
* assessment of risk and preparation of information to make proper management decisions;
* available independent informational approaches to all significant risks.

For the purpose of strategic risk monitoring, the following monitoring criteria were set:

* monitoring criterion related to impossibility of achieving the set strategic objectives;
* monitoring criterion related to the change in strategic objectives.

Strategic risk monitoring is conducted in accordance with the set criteria, by means of the range of qualitative indicators, including:

* identifying cases of violation of the approved Development Strategy;
* identifying significant deviations from schedule and/or budget for implementation of strategic projects;
* identifying risks impeding achievement of strategic objectives.

The additional tool for managing the strategic risk at the strategy implementation stage is the monitoring of the progress of implementation of the Strategic Initiatives. Regular reports on the results of the strategic risk monitoring are submitted to the NCC’s authorized collective bodies, which include:

* data on strategic risk level and dynamics;
* statistical data on key risk indicators;
* results of the programs for identification and assessment of strategic risk;
* report on the progress of implementation of risk mitigation measures;
* other information related to strategic risk management.

The results of managing the strategic risk are considered in the process of strategic planning in accordance with the NCC’s strategic objectives and the Group Strategy. On the basis of the established current and planned (target) indicators of risk appetite, NCC takes part in a strategic objectives development.

## ***Legal risk management***

The NCC's legal risk management framework is based on the operational specifics of the Bank, which combines the functions of a central counterparty and a clearing organization in the financial markets of Moscow Exchange Group with banking operations and activities of a commodity delivery operator. At that, the special attention is paid to the measures for the legal risk mitigation in course of the NCC’s performance of central counterparty functions. In NCC, the legal risk factors are common for all types of activities; therefore, for the purpose of arrangement of the legal risk management process, NCC has developed a comprehensive legal risk management system for all types of the NCC's activities.

In the Bank the legal risk management is carried out in accordance with Regulation “On organization of legal risk management in Bank National Clearing Centre (Joint-stock company)”, approved by the resolution of the Bank Supervisory Board (Minutes No. 8 dated 24 December, 2015), which takes into account the requirements of the Bank of Russia to the legal risk management, set forth in Regulation No. 463-P dated 12 March, 2015 “On the requirements aiming to decrease clearing risks and requirements to the document(s) defining measures aiming to decrease credit, operational and other risks, including risks associated with combining clearing activities and other activities”, and in Ordinance No. 3624-U dated 15 April, 2015 “On the requirements for risk and capital management framework of a credit institution and banking group”, Ordinance No. 2919-U dated December 03, 2012 “On Assessment of the management quality of a credit institution performing the functions of central counterparty”, as well as in Letter No. 92-T dated June 30, 2005 “On organization of the management of legal risk and reputational risk in credit institutions and banking groups”.

The legal risk management process implies distribution of powers among different levels of NCC’s management bodies and also structural subdivisions and employees of the Bank. The system of powers to take decisions in the legal risk management process and control the legal risk management effectiveness comprises several levels: the first is the NCC’s Supervisory Board and the Risk Committee of the Supervisory Board, the second is the Management Board, CEO and the Internal Audit Service, the third level is the Authorized Officer for legal issues, Legal Department, Internal Control Department, Risk Analysis and Control Department, the Authorized Officer for operational risk management, and the fourth level is represented by other subdivisions.

In accordance with the internal administrative document, the Bank has appointed the Authorized Officer for legal issues, who is in charge of managing legal risk and framework aimed at mitigation of legal risk. The Authorized Officer for legal issues is directly subordinated to the NCC’s CEO, and in his (her) activities he (she) or she is independent from the Legal Department and the subdivisions performing operations (trades) associated with legal risk-taking.

On an ongoing basis, the Authorized Officer for legal issues organizes monitoring of legislation of the Russian Federation, prepares overviews of changes in the legislation of the Russian Federation, regulations of the Russian Federation, judicial practice, and draft regulations of the Russian Federation on the issues relevant to NCC. Such overviews are sent to all interested structural subdivisions of NCC. The heads of the interested structural subdivisions ensure a timely implementation of changes in the internal documents of NCC, taking into account the changes in the legislation of the Russian Federation.

To mitigate legal risk, the Bank has developed standard forms of contracts and other internal documents and established the procedure for approval by the Legal Department of the non-standard contracts, operations and other transactions of the Bank.

In accordance with its internal documents, NCC collects and analyzes the information about the facts of legal risk events and monitors legal risk. On a quarterly basis, the authorized officer for legal issues prepares legal risk reports and submits them to the Management Board of NCC for review and approval. The reporting on legal risk is formed on the basis of the legal risk level assessment indicators introduced by the Regulation on organization of legal risk management in Bank National Clearing Centre (Joint-stock company) and contains the following information: assessment of the legal risk level; results of the legal risk level assessment in dynamics; relation between the indices of the legal risk level and set limits.

The indices of the legal risk assessment level in 2016 did not exceed the limits set by the resolution of the Bank’s Management Board. Increased attention in 2016 was paid to analyzing the claims of clearing members and counterparties and to the arrangements aimed at preventing any situation capable of resulting in litigations against NCC. Measures for risk mitigation were promptly taken in relation to each legal risk event, including claims of clients and counterparties against NCC.

The quantity of legal risk events fixed in 2016 in connection with presented claims of clients and counterparties against NCC as compared with 2015 decreased by two times. No Bank’s payments were adjudicated by judicial bodies in 2016.

***Regulatory (compliance) risk management***

The regulatory (compliance) risk is the risk of losses arising as a result of non-compliance with the legislation of the Russian Federation, internal documents of the organization as well as a result of applied sanctions and (or) other retaliation measures on the part of supervisory bodies.

The specifics of regulatory risk as applied to the NCC’s activities as a clearing organization, central counterparty and commodity delivery operator lies in a possibility of rise of NCC’s expenses (losses) as a result of non-compliance with the requirements of Federal Law dated February 07, 2011 No. 7-FZ “On clearing, clearing activities, and central counterparty”, regulations of the Bank of Russia, Articles of Association and internal documents of NCC connected with the above types of its activities.

The regulatory risk management is conducted by the Internal Control Department, whose list of tasks includes performance of the following actions:

* minimization of rise of regulatory risk (collection of information, analysis of information for identifying its association with regulatory risk, preliminary processing, interaction with structural subdivisions for the purposes of obtaining explanations, additional information, fixing of events);
* control over the NCC’s compliance with the legislation on clearing and clearing activities, on combating unlawful use of the insider’s information and market manipulation;
* taking of prompt and effective decisions aimed at eliminating the revealed defects and violations in the NCC’s activities;
* preventing and managing the conflict of interest subject to the specifics of NCC’s activities;
* using the best compliance practices, standards and norms of professional ethics;
* rendering methodological support to the Bank employees in identifying the areas of possible rise of regulatory risk on the basis of the tasks and functions imposed on the structural subdivision within its competence.

Reports on regulatory risk events are submitted to the NCC management bodies in accordance with Regulation of organization of the regulatory risk management (compliance risk) adopted in late 2015. In 2016 the approach to classification of regulatory risk events was corrected with the aim of providing the maximally possible accurate identification of events resulting in occurrence of regulatory risk and events which could have resulted in occurrence of this type of risk, but for the available controls and taken measures.

## ***Reputational risk management***

In 2016 the Bank dealt with the following main tasks in its work on the reputational risk (RR) management:

* monitoring the registered events/incidents along all lines of the Bank’s activities for the purpose of identifying their association with RR events and assessing the identified events of this type of risk, keeping track on their influence on the RR level on the specially created scale to take, if necessary, measures for preventing/reducing the possible damage to the Bank;
* introduction of “Methodology for calculation of the reputational risk level of Bank National Clearing Centre (Joint-stock company) on the basis of assessment of risk events in the process of the reputational risk management and its automatization ;
* strengthening the control functions of the NCC collective management bodies over activities related to RR management and its improvement.

The analysis of the data characterizing the RR management results in the reporting period shows that the level of this type of risk was maintained within the limits of acceptable level - 300 points by measurement scale. By quarters the RR level is characterized by the following peak figures: 160 points – quarter I, 140 points – quarter II, 110 points – quarter III and 180 points –quarter IV.

 By their categorization (according to Rubricator) the fixed RR events were referred to groups of internal and external factors. The events of the group of internal factors resulted mainly from erroneous actions or delay in transferring cash of NCC, distribution to clearing members of incorrect reports on clearing results, incorrect identification of claims and liabilities in any assets, suspension of the service of withdrawal/crediting of funds. In the reporting period they did not influence the curve, determining the RR level, as they did not reach the scale and thresholds of sensitivity established by Rubricator.

At the same time the events of the group of external factors reached the scope and threshold of sensitivity, which influenced the RR level, according to Rubricator. These events were referred overwhelmingly to the factor of appearance of negative information in the external environment – negative publications, mainly on Moscow Exchange, in isolated instances – on the Bank. But they were not critical in terms of maintaining the RR level within the set limits of acceptable level and did not require any prompt response for preventing possible damage.

In the reporting period for the purposes of responding timely to the reputational threats arising under impact of negative occurrences in the external environment, the Bank monitored continuously the information field of Russian mass media with regard to the objects of survey with using the informative-analytical system “Medialogy”. For determining the general condition of the information space for the monitored objects the Bank used the MediaIndex of “Medialogy” – indicator of assessment of the presence of objects in mass media, taking into account the influence capability of sources, size and place of release of messages/publications and also positive, negative or neutral nature of references to objects in them. The quarterly dynamics of change of this index is given in the diagram.

**QUARTER-BY-QUARTER MEDIAINDEX DYNAMICS**

**OF SURVEYED OBJECTS**

**(quantitative indices)**

*Note:*

Orange color highlights the period, in which the maximum level of MediaIndex was fixed – quarter 4, 2016.

In 2016 the intensive work was carried out to implement the project for computerization of the RR management process that is intended to provide:

* continuity of monitoring, assessment, analysis of reputational risk events and control of the risk level change;
* possibility for the executives of NCC Clearing Bank to monitor in the real time mode the dynamics of this risk and to take promptly decisions on preventing occurrence of RR events, preventing/neutralizing possible negative consequences and to control the whole process of RR management;
* compliance with the requirement of the Central Bank of Russia to inform timely the regulator of off-nominal situations associated with reputational risk, measures of prompt response and results of RR management activities on the whole.

In the reporting period the Bank provided approval of the project by the Architecture Committee of Moscow Exchange, defined the principles of incorporation of the computerized RR management system being built into the IT infrastructure of the company, technical scheme and technical requirements for software, resolved issues associated with the necessity to observe the information security requirements. The work was performed on the basis of the obtained technical information to create a software maximally corresponding to the Bank’s existing technical requirements on the basis of MS SQL.

The software technical description and software description from developers were drawn up. The following work was executed together with the NCC’s IT Department:

* Web-server configuration;
* Deployment of test shell of RR ACS;
* Testing of the module for sending notices. POSTFIX;
* Checking the functionality of PHP, Apache, JS;
* Carry-over of the bookkeeping data to the NCC’s server to computerize the user in Active Directory.

The implementation of this project is planned to be completed in the second quarter of 2017.

 In quarter II, 2016 the NCC’s Supervisory Board approved the updated “Regulation of reputational risk management of Bank National Clearing Centre (Joint-stock company), Minutes No.2 dated June 17, 2016 (hereinafter “Regulation”). The updating of the Regulation was necessitated by the following reasons:

* compliance with the requirements of the Regulation on creation of a scale for measuring the level of reputational risk, defining the limitary values (limits) of acceptable/unacceptable risk levels;
* since December, 2015 Bank’s introduction of the Methodology for calculation of reputational risk level on the basis of risk events that required harmonization of the Regulation and Methodology;
* changes occurred in the structure of internal control and redistribution of responsibility among the Bank structural subdivisions for management of economic and non-economic risks.

In quarter III, 2016 at its meeting the NCC’s Management Board considered the issue “On current state and further stages of the implementation of the project for creating a informative-analytic system for supporting the process of the reputational risk management in Bank NCC (JSC). The Management Board decided to continue the implementation of the project until it is fully completed – introduction of the Methodology of calculation of the reputational risk level of Bank National Clearing Centre (Joint-stock company) on the basis of assessment of risk events in the process of reputational risk management and automatization of this process.

In 2016 NCC reported quarterly to the DFS of the Bank of Russia on the RR management results. In accordance with the recommendation of the Internal Audit Service, for the purposes of improving control for the RR management by the NCC’s collective executive bodies, since quarter IV, 2016 the Bank has introduced quarterly hearings of reports of the Authorized Officer on management of this risk type at meetings of the Bank’s Management Board.

## ***Custody risk management***

For its payments and settlements NCC uses services provided by counterparty banks, depositories and settlement organizations (including NCO CJSC NSD). The infrastructure of commercial banks and third party depositories is used in instances where there is no possibility to use the infrastructure of the Bank of Russia and NCO CJSC NSD. The quality of counterparties is assessed in the process of the NCC’s credit risk management.

To mitigate the custody risk NCC assesses the quality of depositories in accordance with the requirements of the Regulation of the procedure for formation of provisions for possible losses of Bank National Clearing Centre (Joint-stock company).

Moreover, in the process of the custody risk management NCC:

* provides accreditation of elevators in accordance with the Rules of elevators accreditation by NCC Clearing Bank as a commodity delivery operator;
* provides accreditation of commodity warehouses in accordance with the Rules of commodity warehouses accreditation by NCC Clearing Bank as a commodity delivery operator;
* controls the actual location of assets owned by the central counterparty and (or) transferred by clearing members to the central counterparty as a collateral for the performance of obligations;
* estimates a possibility for demanding timely the assets owned by the central counterparty and (or) transferred by clearing members to the central counterparty as a collateral for the performance of obligations;
* ensures a possibility for creating provisions and (or) insuring the assets owned by the central counterparty and (or) transferred by clearing members to the central counterparty as a collateral for the performance of obligations for covering potential losses arising in case of custodian insolvency.

## ***Commercial risk management***

The commercial risk means any potential deterioration of the Bank financial standing (as commercial organization) due to the exceeding of expenses over earnings, provided that they cause losses not associated with occurrence of credit or custodial risk.

For the purpose of the commercial risk management NCC implements the following measures:

* develops plans of actions to recover/reduce orderly the volume of activities for the event of occurrence of common business risk or reputational risk;
* provides analysis of income and expenses in case of introduction of new instruments and products.

## ***Systemic risk management***

The source of the systemic risk is realization of other risks specified in this report. Considering the mentioned specifics of realization of the systemic risk, the responsibility for its management is distributed among all subdivisions/responsible persons of NCC within their competence in the risk management and coordinated by the Department of risks analysis and control. Moreover, to reduce the systemic risk during the decision-making process, the management bodies and responsible officers take into account the mutual influence of NCC and other infrastructural organizations, clearing members and other counterparties.

In addition to the common measures aimed at reducing other risks arising in NCC’s activities, for the purposes of reducing systemic risk, NCC additionally:

* monitors the financial infrastructural organizations, with which the contractual relations are established and in relation to which NCC has a credit risk;
* monitors the aggregate positions of clearing members opened in all markets, in which NCC acts as central counterparty;
* develops the procedures for transferring the positions of clients of the clearing members in case of its insolvency (bankruptcy) to another clearing member;
* limits the procyclicality of calculation of the amount of the required collateral for trades of clearing members.

#  **Stress testing of financial stability**

The stress testing of the NCC’s financial stability is aimed at decreasing risks to an acceptable level determined by the duty to perform Russian financial market infrastructure functions - maintaining stability in the serviced segments of the financial market, providing to the clearing members the clearing services enabling efficient use of the funds allocated to the market.

In 2016, the comprehensive stress testing of the NCC’s financial stability was conducted in accordance with improved methodology, which contributed to higher reliability in substantiation of adopted strategic and operational business solutions in non-standard market conditions. The NCC’s stress testing involves assessment of risks inherent in CCP operations, including credit risk, market risk and liquidity risk, and the traditional risks attributable to banking activities.

CCP risk determines the size of losses caused by non-performance, untimely or incomplete performance by the defaulting clearing members in the markets of the Moscow Exchange of their financial obligations to the CCP.

 The Bank uses the model of simultaneous default of counterparties with the largest net positions. In determining the number of clearing members’ defaults, NCC takes into account the recommendations issued by CPMI-IOSCO for central counterparties. NCC conducts reverse stress testing to determine the values of risk factors where under the financial stability indicators assume critical (minimum/maximum acceptable) values, given the need to comply with prudential requirements of the Bank of Russia. Financial stability stress testing is conducted both in respect of analysis of sensitivity to certain risk factors which may result in possible CCP losses, and in respect of the simultaneous effect of the pre-determined set of risk factors, enabling to evaluate adequacy of the CCPs’ financial resources in crisis situation. NCC performs validation of the CCP stress testing models. In case of significant changes in market conditions, stress parameters are revised promptly.

 The results of stress tests conducted in 2016 evidence that NCC is able to maintain financial stability without any threat to operational continuity, determined through sufficiency of risk coverage resources, in a range of simulated stress scenarios.

**8. Internal control system**

Under the conditions of increased attention of the supervisory bodies to organization and functioning of the internal audit and control in credit organizations and, in the first place, in infrastructural organizations of the financial market in 2016, the great attention was paid to the efficiency of activities of the Internal Audit Service (hereinafter – IAS) and Internal Control Service (hereinafter – ICS). The priority tasks of these services were to improve the quality and actuality of the tasks being performed, services being rendered, to support a successful business development.

Thus, since 2016 IAS has been applying to its activities the International professional standards of internal audit and principles of the international Code of professional ethics of internal auditors. In this connection in 2016 the program of guarantee and improvement of the internal audit quality was approved and maintained. According to the self-assessment, IAS increased the level of its compliance with the Professional standards of internal audit. Thus, as of 01.01.2016 with regard to eleven Professional standards IAS conformed to four and partially to seven standards, and as of 01.01.2017 – nine and two Professional standards accordingly.

In 2016 the Bank continued developing the compliance function, activities related to development and control of measures for preventing conflict of interest, anti-bribery policy, combating money laundering and financing of terrorism, fulfillment of FATCA requirements and implementation of the standard for international exchange of tax information CRS.

NCC performs the internal control in accordance with the Federal Law dated 02 December, 1990 No. 395-1 “On banks and banking activity”, Federal Law dated 07 February, 2011 No. 7-FZ “On clearing, clearing activity, and central counterparty”, Regulation of the Bank of Russia dated 16 December 2003 No. 242-P “On organization of internal control in credit institutions and banking groups”, and the Order of the FSFR of Russia dated 13 August. 2013 No. 13-72/pz-n “On approval of requirements to arrangement of internal control of a clearing organization and to the document establishing the internal control procedure in a clearing organization”, subject to the nature and scale of conducted operations, level and combination of assumed risks, in its roles of both the central clearing counterparty, Bank and commodity delivery operator (CDO), which exert mutual influence upon each other.

The internal control is exercised for the following purposes:

* efficient financial and economic performance of NCC in banking operations and other transactions, performance of the functions of a clearing organization and central counterparty, efficient management of assets and liabilities, including safe custody of assets, management of banking risks / central counterparty and CDO risks;
* reliability, completeness, objectivity and timeliness of preparation and submission of financial, accounting, statistical and other reports;
* information security, i.e. protection of the NCC’s interests in the information field, which is a composition of information, data infrastructure, entities collecting, forming, disseminating and using information, as well as the systems regulating the relations arising in this field;
* compliance with the requirements of the legislation of the Russian Federation, NCC Charter, and internal documents of the Bank;
* prevention of the NCC’s involvement and participation of its employees in illegal activities, including, but not limited to money laundering and financing of terrorism, and in performance of suspicious transactions;
* mitigation of the risk of the Bank’s losses due to sanctions and/or other disciplinary measures by supervisory bodies, including the same due to non-compliance with the legislation of the Russian Federation, Bank’s internal documents, and standards for self-regulated organizations, as well as timely submission, in accordance with legislation of the Russian Federation, of information to the state authorities and the Bank of Russia, maintaining the NCC’s effective system of countering money laundering and prevention of financing of terrorism, at the level sufficient to manage the risk of money laundering and financing of terrorism.

The efficiency of the NCC’s internal control system is ensured by:

* control procedures implemented at all management levels;
* periodical inspections of compliance of all activity areas with established policies and procedures;
* the control procedures embedded in the NCC’s everyday operations;
* follow-up control of performed operations;
* separation of functions and ensuring absence of the conflicts of interest in performance of duties by the personnel;
* conformity of the conducted operations to the effective legislation of the Russian Federation and regulations of the Bank of Russia;
* timely provision of necessary information to the relevant NCC employees;
* maintaining the required level of security of information systems;
* daily monitoring of high risk transactions;
* external and internal audit of the internal control system;
* performance of regular control of efficiency of the measures taken by the subdivisions and management bodies upon the results of inspections, ensuring decrease in the level of identified risks;
* timely submission to the management and Supervisory Board of the information on material risks and deficiencies of the internal control system.

 As of 31 December 2016, the system of the NCC’s internal control bodies performing internal control in accordance with their powers defined in the Charter and internal documents of NCC included:

* management bodies of NCC (General Shareholders Meeting, Supervisory Board, Management Board, and CEO);
* Revision Commission;
* Chief Accountant (his or her deputies);
* IAS operates under the direct control of the Supervisory Board of NCC. The main objective of the IAS is to ensure independent objective assessment of efficiency of internal control, risk management framework, and corporate governance.
* ICS operates under the direct control of the CEO and reports to the CEO. In the matters related to compliance with requirements of the legislation on combating unlawful use of insider information and market manipulation the head of ICS reports to the Supervisory Board of NCC. The main functions of ICS are: mitigation of compliance risk (regulatory risk), control over Bank’s observance of the legislation on clearing, clearing activities and central counterparty and legislation on combating unlawful use of insider’s information and market manipulation.
* Financial Monitoring Service – the NCC’s structural subdivision for anti-money laundering and combating financing of terrorism, established and operating in accordance with paragraph 2 of Article 7 of the Federal Law dated 07 August, 2001 No. 115-FZ “Anti- money laundering and combating financing of terrorism”.

The Bank appointed the authorized officer (head of the Financial Monitoring Service) – a special officer responsible for implementation of internal control rules for anti- money laundering and combating financing of terrorism in NCC. The functions of control over organization of the Bank’s work related to anti- money laundering and combating financing of terrorism are performed by the Deputy CEO. FMS reports to the Bank’s Supervisory Board – the report for the year 2016 has been timely submitted;

* Risk Analysis and Control Department (hereinafter RACD) – a structural subdivision of NCC, whose activity is focused on forming the single and efficient economic risk management system for NCC as a credit organization, clearing centre and CDO, operating in the markets of Moscow Exchange Group. Also, RACD coordinates and controls the work of all subdivisions (employees) performing the non-financial risk management functions;
* authorized officer for legal issues – the person in charge for managing legal risk and organization of work aimed at mitigation of legal risk. The authorized officer for legal issues acts in accordance with the legislation of the Russian Federation, regulations of the Bank of Russia, Charter, and internal documents of NCC;
* authorized officer for reputational risk management – a person managing reputational risk and organizing the work aimed at its mitigation. The authorized officer for reputational risk management acts in accordance with the legislation of the Russian Federation, regulations of the Bank of Russia, Charter, and internal documents of NCC;
* authorized officer responsible for organization of operational and strategic risk management. The authorized officer responsible for organization of operational and strategic risk management acts in accordance with the legislation of the Russian Federation, regulations of the Bank of Russia, Charter, and internal documents of NCC;
* other structural subdivisions and NCC employees performing internal control in accordance with their powers defined in the internal documents of NCC. For example, Information Security Service (ISS). ISS acts under the direct control of NCC’s CEO and reports to the CEO. The main tasks of the ISS are: develop a set of measures for protecting confidential information (including bank secrecy, clearing information, personal data), to carry out periodically an audit of the objects of the Bank’s infrastructure and existing processes for checking the compliance with the information protection requirements.

The interaction between the NCC’s subdivisions and employees included in the internal control system is illustrated by the scheme below.

***Interaction between NCC’s subdivisions and employees included in the internal control system***

 General Meeting

Internal Audit (IAS)

Service

Revision Commission

Supervisory Board

Chief Accountant / Deputy Chief Accountants

|  |
| --- |
| Internal Control Service (ICS)  |
| Board of Directors, CEO  |
| Financial Monitoring Service (FMS) Deputy CEO Department of Risk Analysis and ControlAuthorized Officer for Legal IssuesAuthorized Officer for Reputational Risk ManagementAuthorized Officer for Operational and Strategic Risk Management  |
|  |
|  |
|  |

Other organizational subdivisions and employees in charge of internal control in accordance with powers defined by NCC’s internal documents

Иные структурные подразделения и работники НКЦ, осуществляющие внутренний контроль в соответствии с полномочиями, определенными внутренними документами НКЦ

**9. Technological platform**

In 2016 one of the most important lines in IT area was ensuring the reliability and fault-tolerance of the Bank’s Software-Hardware Complex (hereinafter – SHC).

SHC is located in two geographically remote data processing centers with full backing-up of the most critical NCC systems. This complies with the business continuity provision standards generally accepted in the world practice. In 2016, for the purposes of increasing the fault-resistance and minimizing operational risks, NCC relocated the main NCC systems to the new Data Center– DataSpace1, with reliability index “Tier III”. The back-up systems were placed in physically remote Data Center with similar reliability indices.

Among most significant results and events of the previous year concerning the improvement and development of the technological platform, [it is worthwhile noting](http://www.multitran.ru/c/m.exe?t=7330276_1_2&s1=%F1%EB%E5%E4%F3%E5%F2%20%EE%F2%EC%E5%F2%E8%F2%FC,%20%F7%F2%EE)  the following:

* completion of standardization of the technological platform the NCC systems used for automation of central counterparty activity and settlement, which is described in detail above in this report;
* transfer clients to the new system of interaction with NCC – Web-Clearing. This system is a modern development of electronic document interchange on the basis of Web-technologies and was launched in late 2015. In 2016 more than 150 clients were connected to it. The system was positively assessed by clients and effectively replaces the product offered earlier “Universal Client’s Working Station of NCC Clearing Participant (UCWS)”.

In the framework of increasing the reliability of the operability of the systems used in NCC:

* NCC’s all systems were transferred to the new server equipment with simultaneous transfer to the LINUX operating system;
* NCC’s treasury operations centre was transferred from the Thomson Reuters Dealing technology to “cloud” Thomson Reuters FX Trading platform, which provides to traders new services of access to the Thomson Reuters currency-cash liquidity, and from 2017 - to trading floors of third parties. The new technology introduction ensured the continuity of services provision for NCC’s traders and also fault-tolerance of the Thomson Reuters FX Trading complex on the whole on the main and back-up floors of NCC Clearing Bank. Operational expenses on maintaining 1 working position of trader were cut by more than 50 %. The introduced technology ensures reliable interaction and failure-free transfer of data to the back office systems.

Throughout the year the Bank actively worked on the computerization of the processes to comply with the changing requirements in new regulations of the Bank of Russia with regard to development of both CCP’s system and automated banking system – IBS “Centaurus Omega”. In 2016 NCC paid great attention to progressive development of the IBS functionality. In particular, the following work was performed in relation to IBS “Centaurus Omega”:

* over 640 updates/fixes were installed in accordance with user requests and orders/instructions of the controlling bodies;
* MatUchet model was upgraded in accordance with Regulation 448-P;
* the Bank implemented the functions of processing and execution of trades in direct REPO on securities obtained under reverse REPO without recognition, as well as processing and execution of margining and compensatory payments under REPO trades;
* possibility was ensured to form messages according to Regulation No. 1267 “On information interaction among organizations of financial market and authorized bodies”;
* registration and follow-up control of obligatory treasury limits on financial instruments were automated;
* mechanism was created to monitor payments for identifying the need for ensuring a penalty withholding under FАTCA;
* possibility was provided to process and register FLB with variable nominal value and repayment of bonds below the nominal value;
* new model was created to execute operations on placing a deposit in precious metals with non-resident bank.

In 2016, the quantity of users of IBS grew by 12%. The volume of transactions increased by over 20% up to 100,822,540; the quantity of recorded entries of counterparties and issuers - legal entities grew by 7% and reached 3,651, and the same indicator for private individuals increased by 13% up to 7,781.

 The Bank continued traditionally developing the ecosystem Softwell NAVIGATOR products. The following should be specified as some major work in 2016:

1. Development of SFD market, namely:
	* optimization of the algorithm for calculation of the requirements to GC for portfolio, symmetric TGC, taking into account of liquidity components as to the risk-model of market;
	* introduction of withdrawal of money “to a day” – night and deferred return of funds;
	* extension of the list of currencies – registration of trades of all types with new currencies EUR and CNY was introduced;
	* introduction of delivery forwards.
2. Development of integration with IBS “Centaurus Omega”:
	* transfer of the date of fixing for forward NDF was realized;
	* transfer of delivery forward trades was realized.

The quantitative indices in SFD market for 2016 are described by the following figures:

|  |  |  |
| --- | --- | --- |
| **Index** | **Total** | **New** |
| Active users | 41 | 10 |
| Active logins of Clearing Members of SFD Market | 58 | 12 |
| Trades of Clearing Member – CCP in SFD Market | 122 | 66 |

In accordance with the requirements of Regulation dated 19.06.2016 No. 397-P “On procedure for creation, keeping and storage of data bases on electronic media” the technology was introduced to form and transfer electronic archives of Bank NCC to the off-office storage.

For the purpose of fulfilling the requirements of Federal Law No. 213-FZ dated 24.06.2009, Regulation of the Bank of Russia 407-P dated 4.12.2014 and order of Rosfinmonitoring No.349 dated 23.12.2014, the model “Request” for submitting information to Rosfinmonitoring in accordance with the laws of the Russian Federation was put into industrial operation and maintenance phase.

The Bank continues development of ORACLE database management system (DBMS) services. In 2016, the aggregate volume of supported databases (DBs) reached 54 Tb, and the number of databases is 42. NCC continued work on the task of automated placement of risk parameters on the NCC’s website. In 2016, the automated placement of risk parameters for the securities market and FX market of the Moscow Exchange on the NCC’s website was implemented.

The stress testing conducted in 2016 demonstrated that the Bank’s SHC was capable of operating under the workload, which is two-time higher than the current load.

**10. Major financial performance results**

|  |
| --- |
| **Major financial performance results as of 01 January 2017** |
|  | **(*thousands rubles)*** |
|  |  |
| **Equity (capital)** | **46,515,470**  |
| **Net income, total** | **27,056,360** |
| **Operating expenses** |  **1,198,218** |
| **Pre-tax profit** | **25,858,142** |
| **Accrued (paid) taxes** |  **4,938,982** |
| **After-tax profit** | **20,919,160** |

***Dynamics of changes in financial performance results***

***(thousands rubles)***

|  |  |  |  |
| --- | --- | --- | --- |
| **Indicators** | **Change 2016/2015** | **2016** | **2015** |
| Interest income, total | 78% | 104,996,458 | 59,095,188 |
| Interest expenses, total | 140% | 86,199,398 | 35,963,012 |
| **Net interest income (negative interest margin)**  | -19% | **18,797,060** | **23,132,176** |
| Changes in provisions for possible losses on loans, debts and equivalents, funds placed on correspondent accounts, as well as accrued interest income, total, including: | -100% | 61 | 102,550 |
| **Net interest income after provisions for possible losses** | -19% | **18,797,121** | **23,234,726** |
| Net income from transactions with financial assets measured at fair value through profit or loss | 215% | 478,177 | 151,923 |
| Net income from transactions with financial liabilities measured at fair value through profit or loss |   | -21,601 | 0 |
| Net income from available for sale securities dealing | 1,327% | 1,595,316 | -130,049 |
| Net income from foreign currency transactions | -369% | -3,895,006 | 1,449, 616 |
| Net income from foreign currency revaluation | 341% | 3,074,608 | -1,277,140 |
| Net income from precious metals transactions |   | 546 | 0 |
| Commission fee income | 21% | 7,165,115 | 5,900,548 |
| Commission fee expenses | 41% | 149,116 | 105,524 |
| Change of provision for other losses | -90% | 4,380 | 41,794 |
| Other operational income | 35% | 6,820 | 5,052 |
| Net income (expenses) | -8% | 27,056,360 | 29,270,946 |
| Operating expenses | 1% | 1,198,218 | 1,186,620 |
| **Pre-tax profit (loss)** | -8% | **25,858,142** | **28,084, 326** |
| Tax compensations (expenses) | -9% | 4,938, 982 | 5, 437,891 |
| **Profit (loss) for reporting period** | -8% | **20,919,160** | **22,646,435** |

***Dynamics of changes in equity (capital) of the Bank and major indicators included in the capital calculation (thousand rubles)***

The Bank manages its capital on the going concern assumption, with the view to the need to maintain necessary balance between ensuring financial sustainability in any economic conditions of its business functioning and the high level of return on investment for shareholders

 In the reporting period, the Bank managed its capital, being guided by the objectives determined by the Moscow Exchange Group’s Strategy for 2015-20 in the field of centralized clearing and increasing the reliability of the central counterparty. Paying attention to the need to comply with regulatory requirements to the capital of credit organizations, the Bank forecasted its capital amount subject to the rate of growth of operations in the Group’s on-exchange markets and volumes of funds deposited by clearing members to secure performance of obligations under trades and also subject to the size of risks, accepted in connection with implementation of the Group’s top-priority projects involving performance of centralized clearing with Bank’s participation. When forecasting the size of capital and its adequacy level, the Bank also considered the expected dividend payments in accordance with the Group’s dividend policy.

|  |  |  |
| --- | --- | --- |
| **Item** | **01.01.2017** | **01.01.2016** |
| Equity (capital), total |  46,515,470  | 54,130,884 |
| including: |  |  |
| Core capital |  25,361,995  | 31,346,599 |
| Basic capital |  25,361,995  | 31,346,599 |
|  Supplementary capital  |  21,153, 475  | 22,784,285 |

In the reporting period, the Bank fully fulfilled all existing requirements to capital adequacy.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
| **Equity (capital)** | **715,875** | **2,131,622** | **4,251,640** | **8,126,112** | **9,999,913** | **13,501,400** | **28,839,271** | **38,542,136** | **54,130,884** | **46,515,470**  |
| **Retained profit**  | **15,258** | **373,478** | **937,956** | **1,738,448** | **3,615,799** | **7,034,380** | **13,350,109** | **20,914, 899** | **43,766, 172** | **39,367, 617**  |
| **Authorized capital** | **700,000** | **1,735,000** | **1,735,000** | **4,435,000** | **6,170,000** | **6,170,000** | **15,170,000** | **16,670, 000** | **16,670, 000** | **16,670, 00** |
| **Reserve fund** | **1,262** | **24,704** | **86,750** | **221,750** | **308,500** | **308,500** | **966,775** | **966,775** | **966,775** | **966,775** |
| **Sources decreasing equity (capital), including:** |
| **Dedicated capital** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **6,500,000** | **9,500, 000** |
| **CCP capital for coverage of possible losses** |  **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **766,498** | **889,965**  |



Dedicated capital

CCP capital to cover possible losses

On 01 November, 2015, the amendments to the regulations of the Bank of Russia governing central counterparty activity became effective, according to which the central counterparty must segregate a part of equity (capital) to cover possible losses, whether or not caused by clearing members’ non-performance of their obligations.

 The resources of the central counterparty formed in accordance with the requirements of the effective legislation, regulations of the Bank of Russia, intended to cover losses are shown separately on separate personal accounts for record of retained profit and decrease the Bank’s equity (capital).

*thousands rubles*

|  |  |  |
| --- | --- | --- |
| **Part of retained profit intended:** | **2016** | **2015** |
| for covering possible losses, caused by non-fulfillment of obligations by clearing participants (funds used by central counterparty before using the funds, posted by non-defaulting clearing participants to the collective clearing collateral) – dedicated capital of central counterparty | 9,500,000 | 6,500,000 |
| for providing termination and restructuring of activities of central counterparty | 593,310 | 510,999 |
| for covering possible losses as a result of deterioration of the financial standing of clearing counterparty due to reduction of its income or increase of expenses not related to non-fulfillment of obligations by clearing participants | 296,655 | 255,499 |

**11. NCC’s human resources policy. Labor remuneration information**

***Bank’s human resources policy and organizational structure***

In 2016 the Bank continued to improve the policy in the field of labor remuneration of Bank employees in accordance with the requirements of the regulator and implemented a number of projects in the field of development of the management culture, continuity program.

The Bank staff numbers for the reporting period as compared with 2015 has not changed: as of the end of 2016 it numbered 160 employees. The number of the Bank’s Management Board Members decreased from five to four due to the retirement of Luis Vicente, Member of the Management Board of the Bank.

***Personnel remuneration policy***

The NCC’s personnel remuneration policy is in line with the Bank’s strategy, nature and scale of NCC’s operations, results of its activities, level of assumed risks. In 2016 the policy in this field and labor remuneration system itself did not undergo any significant changes. The Bank’s Supervisory Board passes at least once a year resolutions on its preservation or revision of all documents regulating the labor remuneration system subject to changes in the conditions of Bank’s activities, including in connection with change in the Bank’s strategy, nature and scale of performed operations, results of its activities, level and combination of assumed risks.

In 2016 the structure of Bank personnel remuneration developed in accordance with the requirements of Instruction No. 154-I[[1]](#footnote-1) underwent no changes. It consists of a fixed part (base remuneration and compensatory/social payments not connected with the performance results) and variable part (stimulating bonus connected with performance results) (annual incentive/annual bonus)). The size of a position salary is established in Bank in accordance with the Procedures of administration of the system of grades and base remuneration of employees.

 In accordance with the Policy of personnel remuneration approved by the Bank’s Supervisory Board the NCC employees are divided into four categories:

* risk-taking employees;
* employees of subdivisions in charge of risk management;
* employees of subdivisions in charge of internal control;
* other employees.

The Bank has applied a time-rate-bonus salary system which provides that the salary size of employees depends not only on hours worked, but also provides for payment of bonuses to employees subject to results of performance (work) in the reporting period in accordance with the procedure and terms established by the Regulations of payment of bonuses to Bank employees. With that, risk-taking employees are paid with a 40% annual bonus on the terms of deferment (or payment in installments) and its subsequent adjustment on the terms and under the rules set forth in the specially developed Methodology. In March, 2016 the Bank’s Supervisory Board approved the amount of shares of deferred (paid-in installments) part of the annual bonus for the reporting (2015) year by payment (accrual) dates on the basis of risk bearing assets. Correction and payment of the first share of deferred (paid in installments) part of the annual bonus for 2015 to the risk-taking employees is planned for March, 2017 after summing-up of the Bank performance results at the meeting of the Supervisory Board. In 2016 the Bank continued working on perfecting the principles and approaches in the field of Bank personnel remuneration in accordance with the regulator’s requirements and introduced several updates/additions in the documents regulating the Bank’s personnel remuneration system, taking into account the recommendations, given by external auditors at the end of 2015 on the basis of the results of their independent assessment of the remuneration system. The variable part of remuneration depends on the performance of the Group company and individual performance of an employee assessed in the process of the performance management.

 In 2016 special attention was paid to practices of performance management. The results of this process influence the revision of salaries and payment of bonuses subject to the performance results of the reporting year. Assessment of personnel became more simple and clear as well as more objective due to introduction of the principles of collective discussion of the performance results of employees. Moreover, the factors which are taken into account in determining the final assessment of an employee, changed. Thus, since 2016 the final assessment of work has been influenced not only by achievement of the targets, estimate of the conduct of employees in accordance with the corporate values. The main focus in this process was shifted to providing the employees with the feedback and individual plans of their development. The following measures for improving the procedures of performance management have been planned for 2017 and are already being implemented: the system of setting targets for improving their quality and cross-functional balancing will be updated; and it is also planned to provide additional training of managers in principles of employees performance management. The Bank’s internal documents establish also more distinct dependence of correction of the amount of the annual bonus for the performance results of an employee in the reporting period on the quality of employee’s work on the whole and employee’s observance of work discipline and not only on fulfillment of common corporate and individual key indicators of performance.

At the end of 2016 the Internal Audit Service inspected the Bank’s personnel remuneration system and stated the correspondence of this system to the nature and scope of operations performed by NCC, results of its activities, level and combination of assumed risks with taking into account the requirements of Instruction No. 154-I.

***Social support of the Bank employees***

 Providing to the Bank’s employees the corporate social support is one of the elements of Bank’s social policy designed to provide social protection to employees, contributing to growth of the efficiency and quality of their work. The corporate social support of employees is carried out in accordance of the Regulation of corporate social support of Bank’s employees (hereinafter -“Regulations of social support”) revised and approved on an annual basis by the Bank’s Supervisory Board.

 The Bank provides to its employees the insurance coverage under programs of voluntary medical insurance, international medical insurance and against accidents and illness and pays financial assistance in the appropriate instances. As of the end of December, 2016 VMI contracts covered 91.6% of the Bank employees, and IMI contracts and insurance against accidents and illness - all NCC employees.

 The provided allowances and benefits for employees and their family members under the Regulation of social support are not attributed to the personnel remuneration system and their size is not subject to correction subject to the risks assumed by the Bank.

 The Bank promoted healthy lifestyle, prophylaxis of diseases and prevention of epidemic surges of ARVI and flue. The Bank provides corporate allowances for its employees in leading fitness-centres. The Bank employees can take part in sport events organized by the Group (race, triathlon, football, hockey etc.).

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***Training and development of employees***

According to the data as of the end of 2016 year, 98.8% of employees of Bank’s business-subdivisions had higher education, and 16.9% - two higher educations. Moreover, three employees had an academic title of candidate of science and 51.4% - qualification certificates.

 The Bank employees were trained in the following three top-priority areas:

* management culture development ;
* development of culture of knowledge and experience continuity ;
* support of business for the purpose of innovations tasks implementation in accordance with the world trends.

 The Bank invests traditionally significant funds into employees training and development for increasing their professional level and development of competences. The Bank employees training and development system includes educational programs and facilities for self-training (including on the working place). The system is up-to-date and technological, provides employees with additional possibilities for self-training; 281 Bank employees underwent training in 2016 (some employees underwent training under several programs during the year). The Bank employees obtained 3 training days per year on average. All Bank employees underwent 9 obligatory electronic trainings (combating legalization of criminal income (money laundering) and financing of terrorism, operational risks, continuity provision etc.). Most Bank employees underwent 7 developing electronic trainings. On average one Bank employee undergoes 9 electronic trainings per year.

NCC pays attention to introduction of programs for competences development, leader skills and project management skills required for implementing Group’s strategic projects. In 2016 the Group created the Corporate University, which consists of three key departments (faculties): Management Department, Professional Department and Project Department (MOEX Business University)». 6 Bank employees underwent training under the two-year program “MOEX Business University”, and it is planned to release and defend final projects under this program in the first quarter of 2017.

In 2016 6 employees (including: 1 medium-level manager, 3 line managers and 2 employees of the personnel reserve) graduated from the annual program “Management Department” designed to develop management skills, master new approaches and methods of management, form the management culture.

 In 2016 the development of high-level managers was carried out under the corporate Advanced Management Program, according to which 3 high-level managers completed training under programs of a number of the leading professors from the major Russian and foreign business-schools; 5 Bank employees undertook an internship at the Spanish Exchange (BME Group) and training in innovation technologies of work with clients in the Spanish business school ESADE.

The NCC’s system of training and development is aimed at strengthening its staff resources potential. For implementing this task in 2016 the program of continuality planning was launched. Under the program the Bank’s relevant management body approved the pool of successors for key positions of the organization and approved individual plans of their development for two next years.

In 2017 it is planned to update the model of competences and guide of developing actions, which will be applied by the heads of the banking holding companies for planning measures for development of employees. Moreover, it is planned to launch in 2017 the institute of internal trainings, which will make it possible to conduct training of employees by using internal resources – available professional and managerial experience of employees of Group companies.

***Health protection of Bank employees and provision of labor safety***

The responsible attitude to labor safety is one of the core principles of the Bank’s activity in the field of health protection and labor safety of its employees. The main measures for protection of labor and health of NCC employees include organization of safe labor conditions, regular medical examinations, training of personnel in safe labor, formation of health care culture. The Bank has arranged instructions as to labor protection (for new employees, primary, recurrent, non-scheduled instructions on the working place); in the Bank there are all types of instructions on labor safety and fire safety, which can be read by employees at any time on the resource accessible for them. NCC employees can undergo remote labor safety training. The Bank has formed and updates continuously a collection of articles on different topics on health and importance of healthy lifestyle.

In 2016 the Bank organized labor safety training for 6 Bank’s managers at the base of the special training centre. As a result of such training the managers passed successfully the examination of their labor safety knowledge. In accordance with the Special Assessment of Labor Conditions (SOUT) all working places of Bank employees comply with the state regulations, labor conditions class 2 – permissible (no harmful and dangerous factors). The declarations of the compliance of the labor conditions with the state regulations for 2014-2016 were submitted to the state labor inspectorate in 2016. All working places were declared.

The Bank controls observance of sanitary-epidemic standards and performance of preventive measures. For the period of epidemic of ARVI and flue (at the beginning of 2016) the employees were provided with antiseptic agents and medical face-pieces. The special disinfection equipment was purchased and installed in the public places (canteen, negotiation rooms etc.).

The Bank organized pre-trip, preliminary and regular medical examination of the categories of employees, for whom this is stipulated by legislation. Medical and emergency aid in the working hours, if required, is provided by the corporate physician being on duty in the office building. In the reporting period no industrial accident of NCC employees was registered.

**12. Remuneration of CEO, members of the Management Board and Members of the Supervisory Board (criteria for calculation and size of remuneration)**

***On remuneration of CEO and members of the Executive Board***

The remuneration paid in the reporting year 2016 to Bank CEO and members of the Management Board was determined in accordance with the Federal Law “On joint-stock companies”, Labor Code of the Russian Federation, Bank’s Articles, regulator’s requirements, including Instruction of the Bank of Russia dated 17.06.2014 No. 154-I “On procedure of assessment of labor remuneration system in a credit institution and procedures for sending to the credit institution an order to eliminate the violations in its labor remuneration system”, terms of the labor contracts concluded with them, Bank’s internal documents.

Approval of the fixed and variable parts of labor remuneration in the total amount of remuneration, approval of remuneration sizes and other benefits to the members of the Bank’s collective bodies are referred to the competence of the Bank’s Supervisory Board, which takes decisions on the basis of recommendations of its Nominations and Remunerations Committee.

The system of remuneration of the members of the Bank’s executive bodies is designed to achieve the optimal balance between the dependence of remuneration on the Bank’s performance results and personal contribution of each member of the executive body to the achievement of this result. The structure of remuneration elements and their relationship is established by the Supervisory Board of the Bank as percent in the total amount of remuneration and differentiated subject to the degree of the contribution of the executive body member to the financial performance figures and also subject to the risks assumed at his (her) position.

One of the main elements of the Bank remuneration, also covering members of its executive bodies, is a variable part (hereinafter – annual bonus). The amount of the annual bonus of CEO and members of the Management Board depends on, among other things, estimate of the achievement (fulfillment results) of the common corporate key indicators of the performance (targets) of NCC Clearing Bank (40% of the weight of targets on the whole and assessment of individual key figures of the performance (targets) (work results) of CEO and members of the NCC Management Board for the reporting year, results of assessment of risks in relation to deferred (paid in installments) parts of the annual bonus, as well as assessment of the work quality, including with taking into account the data of financial and accounting reports, data of operational record, results of inspections performed by internal/external auditors and regulatory bodies, results of assessment of risks, execution of orders of the Bank’s Supervisory Board and its commissions and other factors. For maintaining the balance between the common corporate (financial, strategic) and individual targets, the aggregate weight of common corporate targets in 2016, the common corporate weight of common corporate targets corporate targets in 2016 accounted for 40% in the total (100%) weight of all targets of the members of the collective executive bodies of the Bank.

After the Bank’s Supervisory Board sums up the performance results of 2016, 60% of the approved annual bonus for the year performance results will be paid to CEO and Members of the Management Board. 40% of the approved amount of the annual bonus for the results of performance of CEO and Members of the Management Board for 2016 is subject to deferred (payment in installments) for three years, including a possibility of reduction or cancellation of payment in case of obtaining a negative financial result for the Bank on the whole according to the procedure and on the terms approved by the Supervisory Board.

Deferred (paid-in-installments) part of the annual bonus (hereinafter – deferred parts) is paid in accordance with the approved-by-Supervisory Board sizes of shares of deferred (paid-in-installments) part of the annual bonus for each reporting year (until subsequent corrections) in accordance with payment (accrual) dates upon the expiry of the periods sufficient for determining the performance results. Thus, the first share of the deferred part of the annual bonus for 2015 was approved at the rate of 89% of the total deferred part of the annual bonus for 2015.

A payment of the first share of the deferred part of their annual bonus for the reporting year 2015, the assessment of realization of risks for which falls on the current period, with taking into account the correction will be effected after the relevant decision of the Bank’s Supervisory Board in March, 2017. For correcting the deferred parts of the annual bonus the Bank assesses realization of the following risks: credit, market and liquidity risks.

The sum of all payments (salary, bonus, compensation for expenses and other payments), effected to CEO and members of the Management Board in 2016 amounted to 92,369.6 thousands . rubles (in 2015 – 112,578.6 thousands rubles).

***Remuneration of Supervisory Board Members***

On May 13, 2016 Moscow Exchange, sole shareholder of NCC, issued Resolution No. 30, on the matters referred to the competence of the General Shareholders Meeting, to pay to the Members of the NCC’s Supervisory Board, elected by resolution of the sole shareholder (Resolution No. 25) dated May 22, 2015, a remuneration for performance of their functions in the amount calculated in accordance with the regulation on remuneration and compensation of expenses of Members of NCC's Supervisory Board, approved by resolution of the sole shareholder dated 22 May, 2015 (Resolution 25). The total amount of remuneration paid to the said Members of the Supervisory Board for performance of their functions amounted to 20,125,000 rubles

 The NCC’s regulation on remuneration and compensation of expenses ensures systematic approach to calculation of the sizes of individual remunerations, determines the specific levels of remuneration for each of the roles of the Members of the Supervisory Board, sets a fixed amount of remuneration for independent members and contemplates the terms ensuring proper involvement of the Members in the activity of the Supervisory Board (the remuneration can be reduced in case of systematic non-attendance of the meetings).

The remuneration of the Members of the NCC's Supervisory Board elected by resolution of the sole shareholder dated 13 May, 2016 (Resolution No. 30) will be paid upon holding the Annual General Shareholders Meeting of NCC in 2017.

**13. Stock dividends**

On January 15, 2016 PJSC Moscow Exchange, sole shareholder of NCC, passed the following resolution (No. 29) on payment (declaration) of dividends:

* to pay dividends on issued shares of  NCC Clearing Bank out of the part of the previous years’ retained profit of NCC Clearing Bank in the amount of 4,999,999,800 rubles 00 kopecks;
* to determine the amount of dividend on shares in the amount of 299 rubles 94 kopecks per one ordinary registered share;
* to set January 27, 2016 as the date, on which the persons entitled to dividends are identified.

The resolution also stated that dividends should be paid in cash within the time-limit established by the legislation of the Russian Federation.

The dividends were paid in February, 2016.

When considering the issues on the agenda of the annual General Shareholders Meeting, on May 13, 2016 PJSC Moscow Exchange, sole shareholder of NCC, passed the following resolution (No. 30) on distribution of net profit of NCC and payment (declaration) of dividends:

* to distribute the net profit of Bank National Clearing Centre (Joint- stock company) in the amount of 22,646,434,589 rubles 74 kopecks, received according to the performance results of the reporting year 2015, as follows:
* to allocate for payment of dividends – 5,799,993,100 rubles 00 kopecks;
* to retain the remained profit in the amount – 16,846,441,489 rubles 74 kopecks;
* to determine the following dividend amount on shares of Bank National Clearing Centre (Joint-stock company): 347 rubles 93 kopecks per one ordinary share of Bank National Clearing Centre (Joint-stock company) (before tax payment on income received as dividends);
* to set May 23, 2016 as the date , on which the persons entitled to receive dividends are identified.

The resolution stated also that dividends should be paid in cash within the time-limit established by the laws of the Russian Federation.

The dividends were paid in May of 2016.

On July 08, 2016 PJSC Moscow Exchange, sole shareholder of NCC, passed the following resolution (No. 31) on payment (declaration) of dividends:

* to allocate for payment of dividends the retained profit of Bank National Clearing Centre (Joint-stock company) of the previous years in the amount of 5,799,993,100 rubles 00 kopecks;
* to determine the following amount of dividend on shares of Bank National Clearing Centre (Joint-stock company): 347 rubles 93 kopecks per one ordinary registered share of Bank National Clearing Centre (Joint-stock company) (before tax payment on income received as dividend);
* to set July 18, 2016 as the date , on which the persons entitled to dividends are identified;

The resolution also determined that dividends should be paid in cash within the time-limit established by the Russian Federation legislation.

The dividends were paid in July 2016.

On September 16, 2016 PJSC Moscow Exchange, sole shareholder of NCC, passed resolution (No. 32) on payment (declaration) of dividends:

* to allocate for payment of dividends the retained profit of Bank National Clearing Centre (Joint-stock company) of the previous years in the amount of 5,799,993,100 rubles 00 kopecks;
* to determine the following amount of dividend on shares of Bank National Clearing Centre (Joint-stock company): 347 rubles 93 kopecks per one ordinary registered share of Bank National Clearing Centre (Joint-stock company) (before tax payment on income received as dividend);
* to set September 26, 2916 as the date , on which the persons entitled to dividends are identified;

 The resolution also determined that dividends should be paid in cash within the time-limit established by the Russian Federation legislation.

The dividends were paid in September 2016.

On December 01, 2016 PJSC Moscow Exchange, sole shareholder of NCC, passed the following resolution (No. 33) on payment (declaration) of dividends:

* to allocate for payment of dividends the retained profit of Bank National Clearing Centre (Joint-stock company) of the previous years in the amount of 2,999,933,200 rubles 00 kopecks;
* to determine the following amount of dividend on shares of Bank National Clearing Centre (Joint-stock company): 179 rubles 96 kopecks per one ordinary registered share of Bank National Clearing Centre (Joint-stock company) (before tax payment on income received as dividend);
* to set December 14, 2016 as the date , on which the persons entitled to dividends are identified;

The resolution also determined that dividends should be paid in cash within the time-limit established by the Russian Federation legislation.

The dividends were paid in December 2016.

**14. Observance of the Corporate Governance Code**

In the reporting period, NCC paid significant attention to increasing the level of the corporate governance, considering it to be 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 the corporate governance, being aware that the positive dynamics in this sector is a prerequisite for achieving success in the financial and economic activity, supporting implementation of new projects and development of the Bank’s activities in general.

The measures taken for the development of the corporate governance system of NCC were based on the recommendations of the Corporate Governance Code approved by the Bank of Russia on 21 March, 2014, Recommendations of the Bank of Russia and the Basel Committee on Banking Supervision, and on corporate governance principles recognized in international practice.

NCC approved and observes the Principles of Corporate Governance (hereinafter - the Principles), which main purpose is to describe the NCC’s existing corporate governance rules and system to improve business efficiency, increase transparency, maintain NCC’s financial stability and attractiveness of the company for stake holders.

In accordance with the Principles, corporate governance aims to provide the NCC's Supervisory Board and employees of the Bank with proper incentives for achievement of the objectives in which NCC and its shareholder are interested, and it must facilitate effective control, thereby stimulating more efficient use by NCC of its resources.

The application of the Principles by NCC results from its aspiration for improvement of its attractiveness for its shareholder, clients (service users), employees, creditors, and the Bank of Russia, and is based on the following approaches:

*Accountability.* The Supervisory Board and NCC’s executive bodies are accountable to NCC’s sole shareholder.

*Fairness.* TheNCC’s management bodies operate equitably and on a lawful basis.

*Transparency.* TheNCC’s management bodies provide timely and adequate disclosure of reliable information about NCC’s activities, including its financial position, performance results, and management bodies. The Bank’s management bodies provide convenient access to this information to stakeholders. NCC’s shareholder has a guaranteed access to information in accordance with the effective legislation of the Russian Federation.

*Responsibility.* The NCC’s management bodies recognize and protect the rights of stakeholders contemplated by legislation of the Russian Federation.

 *Aspiration for further development.* The NCC’s management bodies recognize the need for an ongoing improvement of the corporate governance system, taking into account the Bank’s development and influence of external factors, and the need for an ongoing control of observance of the rights and interests of the sole shareholder and other stakeholders.

The practical record of the Supervisory Board shows high level of involvement of its members in the management of NCC and efficient control over the activities of the Management e Board and CEO of the Bank.

All members of the Supervisory Board have higher education, necessary knowledge, skills and competencies to achieve NCC’s long-term strategic development objectives, and they possess considerable record of work in collective management bodies. All members of the Supervisory Board have necessary qualification and comply with business reputation requirements set forth by the effective legislation of the Russian Federation. In their activity, they are accountable to the NCC’s shareholder.

To ensure sound and timely decision-making in the field of appointments and remunerations, the Nomination and Remuneration Committee was established and is functioning as part of the Supervisory Board of NCC. The major goal of such committee is to ensure an efficient operation of the Supervisory Board of NCC in resolution of the issues required for conformity of the NCC’s personnel remuneration system to the nature and scale of the Bank’s operations, its performance results, level and combination of accepted risks. The committee prepares proposals on appointments and remunerations of members of the Supervisory Board, and members of the NCC’s executive bodies. The members of the Nomination and Remuneration Committee do not hold membership in the NCC’s executive bodies, and the majority of them possess a sufficient experience or a qualification enabling them to make well-grounded decisions.

To meet the requirements of the Federal Law "On clearing and clearing activities and central counterparty" as regards tightening control over the risk management framework, The Risks Committee was set up and is operating as part of the Supervisory Board of NCC. The main objective of the committee is participation in improving the risk management framework of the Bank as a central counterparty clearing institution, in order to increase the NCC’s financial stability and ensure continuity of its clearing activities. Representatives of the clearing members account for at least one half of the Risk Committee’s members.

For the purpose of improvement of operation of the Supervisory Board both in terms of organization and contents in 2016 the assessment of competences of the board members and self-assessment of the operation quality of the Supervisory Board were carried out. The assessment showed the adequate level of members of the Supervisory Board in all core fields of Bank’s activities and identified areas for further development.

The self-assessment of the quality of operation of the Supervisory Board gave a positive result, evidencing absence of any significant obstacles to the efficient operation of this governance body. In the course of assessment a considerable feedback was accumulated for improving the operation of the Supervisory Board and preparation of its meetings, and served as a basis for preparation of the plan of actions for 2017.

To improve efficiency and control of situation in corporate governance, in 2016 the Bank assessed the state of affairs in corporate governance, engaging the members of the Supervisory Board to participate in this assessment. The assessment of corporate governance conducted in 2016 demonstrated its improvements in a number of matters, including the approval of the Bank’s development strategy, organization of activity of the Supervisory Board and payment of remuneration to the members of the Supervisory Board.

The NCC’s corporate governance practices enable the Management Board and CEO to perform reasonably, in good faith, solely for the benefit of the Bank, effective management of the daily operations, and guarantee accountability of these bodies to the Supervisory Board and the General Shareholders Meeting (sole shareholder). CEO and the Management Board organize implementation of resolutions of the General Shareholders Meeting (sole shareholder), and the Supervisory Board.

One of the key principles of corporate governance of NCC is the timely disclosure of reliable information about NCC pursuant to the requirements of legislation of the Russian Federation and internal documents of NCC. The information is disclosed in accordance with the Regulation on information policy of NCC, approved by the Supervisory Board and based upon the principles of regularity and promptness of information, its accessibility for stakeholders, and its reliability and completeness.

According to the requirements of legislation, NCC discloses the information in course of its performance of functions of a credit institution, clearing organization, and central counterparty. The Bank discloses accounting (financial) statements under the Russian and international standards, and an additional information about its operations, which may be material for the shareholder and other stakeholders, while maintaining a reasonable balance between openness of the Bank and protection of its commercial interests. NCC discloses the information using instruments and methods most convenient for the recipients. The NCC’s official website is a main channel for disclosure of the NCC’s information, and therefore the NCC’s website contains the information sufficient for forming an objective understanding of material aspects of the NCC’s activities (www.nkcbank.ru). NCC also discloses the information via mass media; as a rule, material events or actions of NCC are accompanied with press releases publication.

To protect the rights and legitimate interests of its shareholder, and for the purpose of efficient control of financial and business operations, NCC has the Revision Commission, whose members are elected at the annual General Shareholders Meeting. The Revision Commission reports to the General Shareholders Meeting and operates independently from other management bodies of the Bank.

To check and confirm reliability of its financial statements, NCC, annually on a contractual basis, engages a professional audit firm having no property interests in the Bank or its sole shareholder.

In the reporting period NCC updated the Code of Business Ethics, which stipulates the principles for interaction of NCC’s employees, including members of executive bodies, with clients, partners, mass media, government and political organizations, and other rules for external communications. Special attention is paid to defining the situations which may be viewed as a conflict of interests, or which may lead to a conflict of interests, as well as the actions recommended to be taken to avoid such conflict.

NCC approved also the procedure for avoidance of a conflict of interests in NCC, reflecting the grounds for occurrence of such conflicts, the measures aimed at preventing such conflicts, and the procedure for settlement of a conflict of interests. In addition, NCC approved an anti-corruption policy setting the principles guiding the Bank’s activities in ensuring compliance with requirements of the anti-corruption legislation, and the situations containing the signs of corruption risk, as well as the measures aimed at their preventing and combating corruption in the Bank's activities.

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1. Instruction of the Bank of Russia of 17.06.2014 No. 154-I “On procedure of assessment of labor remuneration in a credit institution” (hereinafter – Instruction No. 154-I). [↑](#footnote-ref-1)