Central Counterparty National Clearing Centre

Financial Statements
For the Year Ended December 31, 2018

Central Counterparty National Clearing Center

Contents

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of Central Counterparty National Clearing Centre ("the Organization") which comprise the statement of financial position as at December 31, 2018 and the statements of comprehensive income, statement of changes in equity and statement of cash flows for 2018, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2018 and its financial performance and its cash flows for 2018 in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Organization in accordance with *the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

According to Article 42 of the Federal Law No. 395-1 "On Banks and Banking Activities" dated 2 December 1990 (hereinafter, the "Federal Law") in the course of our audit of the Organization's financial statements for 2018 we performed procedures with respect to the Organization's compliance with the obligatory ratios as at January 1, 2019 and compliance of its internal control and risk management systems with the CBRF requirements.

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

We report our findings below:

1. with respect to the Organization’s compliance with the obligatory ratios: the obligatory ratios as at January 1, 2019 were within the limits established by the CBRF.

   We have not performed any procedures with respect to the Organization's financial information other than those we considered necessary to express our opinion on whether the financial statements of the Organization present fairly, in all material respects, the financial position of the Organization as at December 31, 2018 its financial performance and its cash flows for 2018 in accordance with International Financial Reporting Standards.

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

   (a) In accordance with the CBRF requirements and recommendations as at December 31, 2018 the Organization's internal audit department was subordinated and accountable to the Organization’s Supervisory Board and the Organization’s risk management departments were not subordinated or accountable to the departments undertaking the respective risks, the heads of the Organization’s risk management and internal audit departments comply with qualification requirements established by the CBRF;

   (b) As at December 31, 2018, the Organization had duly approved in accordance with the CBRF requirements and recommendations the internal policies regarding identification and management of significant risks, including credit, operating, market, interest rate, legal, liquidity, and reputational risks, as well as regarding performance of stress-testing;

   (c) As at December 31, 2018, the Organization had a reporting system with regard to the Organization's significant credit, operating, market, interest rate, legal, liquidity and reputational risks, and with regard to the Organization's capital;

   (d) Frequency and sequential order of reports prepared by the Organization's risk management and internal audit departments in 2018 on management of credit, operating, market, interest rate, legal, liquidity and reputational risks were in compliance with the Bank's internal policies; these reports included results of monitoring by the Organization's risk management and internal audit departments of effectiveness of the Organization's respective methodologies and improvement recommendations;

   (e) As at December 31, 2018, the authority of the Organization's Supervisory Board and the Organization's executive bodies included control over compliance with the risk limits and capital adequacy ratios established by the Organization.
   In order to control effectiveness and consistency of application of the Organization's risk management policies, during 2018 the Organization's Supervisory Board and the Organization's executive bodies have regularly discussed reports prepared by the risk management and internal audit departments and have considered proposed corrective measures.

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

Anna Zdanevych,
Engagement Leader

29 March 2019

The Entity: Central Counterparty National Clearing Centre

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

Primary State Registration Number: 1067711004481

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

Address: 125009, Moscow, Bolshoy Kislovsky per. 13

Audit Firm: AO “Deloitte & Touche CIS”

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

Primary State Registration Number: 1027700425444

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

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

Central Counterparty National Clearing Center

Statement of Comprehensive Income
(in thousands of Russian rubles)

	Notes	Year ended December 31, 2018	Year ended December 31, 2017
Interest income	5	16 138 085	14 515 155
Interest expense	5	(446 782)	(1 173 823)
Net interest income		**15 691 303**	**13 341 332**
Fee and commission income	6	8 090 995	6 963 290
Net loss on financial assets at fair value through through profit or loss		(9 562)	(4 845)
Net gain on financial assets at fair value through other comprehesive income		239 230	840 646
Foreign exchange gains less losses	7	(1 926 608)	407 084
Other operational income	8	156 122	2 068
Operating income		**22 241 480**	**21 549 575**
Personnel expenses	9	(663 537)	(636 523)
Administrative and other operating expenses	10	(846 565)	(808 639)
Other expense	12	(1 729 925)	-
Profit before tax		**19 001 453**	**20 104 413**
Income tax expense	13	(3 501 959)	(3 748 211)
Net profit		**15 499 494**	**16 356 202**
Other comprehensive income / (loss) that may be reclassified subsequently to profit or loss			
Movement in fair value reserve for financial assets at fair value through other comprehensive income		(3 864 408)	1 277 006
Movement in the credit risk of financial assets at fair value through other comprehensive income	11	(139 397)	-
Net loss on investments at fair value through other comprehesive income reclassified to profit or loss		(99 833)	(840 646)
Deferred income tax	13	820 728	(87 272)
Other comprehensive (loss) / gain that may be reclassified subsequently to profit or loss		**(3 282 910)**	**349 088**
Total comprehensive income		**12 216 584**	**16 705 290**

Chairman of the Management Board
Khavin Alexey Sergeevich

March 29, 2019
Moscow

НКО НКЦ (АО)

Chief Accounting Officer
Gorina Marianna Petrovna

March 29, 2019
Moscow

Notes 1-31 form an integral part of these financial statements.

Central Counterparty National Clearing Center

Statement of Financial Position
(in thousands of Russian rubles)

	Notes	December 31, 2018	December 31, 2017
ASSETS			
Cash and cash equivalents	14	419 965 855	306 499 826
Mandatory cash balances with Central Bank of the Russian Federation		-	6 010 627
Financial assets at fair value through profit or loss	15	4 211 680	413 618
Due from banks and other financial institutions	16	86 993 582	51 429 690
Financial assets of central counterparty	17	3 312 020 089	2 430 083 747
Financial assets at fair value though other comprehesive income	18	197 860 427	-
Financial assets available-for-sale	19	-	196 897 672
Property and equipment and intangible assets	20	200 227	181 712
Deferred tax assets	13	-	168 519
Current income tax assets		424 088	199 765
Other assets	21	2 206 247	2 677 821
Total assets		**4 023 882 195**	**2 994 562 997**
LIABILITIES			
Customer accounts	22	639 066 596	507 206 788
Overnight bank loans		5 003 111	-
Derivatives recognized at fair value through profit and loss		120 776	6 278
Financial liabilities of central counterparty	17	3 312 020 089	2 430 083 747
Deferred tax liabilities	13	1 023 095	-
Other liabilities	23	1 661 542	702 061
Total liabilities		**3 958 895 209**	**2 937 998 874**
EQUITY			
Share capital	24	16 670 000	16 670 000
Paid-in capital	24	347 144	347 144
Investments revaluation reserve		(1 733 147)	1 291 659
Payments based on the shares of the parent company		41 363	29 178
Retained earnings		49 661 626	38 226 142
Total equity		**64 986 986**	**56 564 123**
Total liabilities and equity		**4 023 882 195**	**2 994 562 997**

Notes 1-31 form an integral part of these financial statements.

Central Counterparty National Clearing Center

Statement of Cash Flows
(in thousands of Russian rubles)

	Notes	Year ended December 31, 2018	Year ended December 31, 2017
Cash flows from / (used in) operating activities:			
Profit before tax		19 001 453	20 104 413
Adjustments for:			
Gain on disposal of financial assets at FVTOCI		(239 230)	-
Gain from disposal of financial assets available-for-sale		-	(840 646)
Revaluation of derivatives		(490 581)	(407 084)
Change in interest accruals, net		3 439 886	(859 184)
Net change in deferred commission income	23	(71 173)	122 472
Unrealized (gain) / loss on foreign exchange operations		(239 308)	135
Other accruals		(30 392)	98 772
Depreciation and amortization charge	10	50 327	32 875
Payments based on the shares of the parent company	9	35 315	20 052
Change in allowance for expected credit losses	11	(124 339)	-
Other provisions	12	873 040	-
Net gains on disposal of property and equipment and intangible assets		-	(8)
Cash flows from operating activities before changes in operating assets and liabilities		**22 204 998**	**18 271 797**
Changes in operating assets and liabilities:			
Mandatory cash balances with Central Bank of the Russian Federation		6 010 627	(2 769 839)
Financial assets at fair value though profit or loss		4 319 494	-
Due from banks and other financial institutions		(21 615 589)	1 820 159
Financial assets of central counterparty		(804 923 618)	(711 775 118)
Other assets		606 842	(1 974 836)
Customer accounts		52 350 031	(89 392 451)
Financial liabilities of central counterparty		804 923 618	711 775 118
Other liabilities		69 881	1 409
Net cash flows from / (used in) operating activities before income tax		**63 946 284**	**(74 043 761)**
Income tax paid		(1 706 663)	(3 363 017)
Cash from / (used in) operating activities		**62 239 621**	**(77 406 778)**
CASH FLOWS USED IN INVESTING ACTIVITIES:			
Purchase of financial assets at fair value through other comprehesive income		(134 025 322)	-
Purchase of financial assets available-for-sale		-	(165 686 545)
Purchase of financial assets at fair value through other comprehesive income		135 464 452	-
Proceeds from sale of financial assets available-for-sale			173 737 547
Purchase of property and equipment and intangible assets		(68 841)	(111 065)
Proceeds from disposal of property and equipment and intangible assets		-	8
Net cash flows from investing activities		**1 370 289**	**7 939 945**

Notes 1-31 form an integral part of these financial statements.

Statement of Cash Flows (continued)
(in thousands of Russian rubles)

	Notes	Year ended December 31, 2018	Year ended December 31, 2017
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid		(3 799 927)	(17 699 539)
Cash flows used in financing activities		**(3 799 927)**	**(17 699 539)**
Effect of changes in foreign exchange rates on cash and cash equivalents		53 660 684	18 564 136
Net increase / (decrease) in cash and cash equivalents		**113 470 667**	**(68 602 236)**
Cash and cash equivalents, beginning of the period	**14**	**306 499 826**	**375 102 062**
Cash and cash equivalents, end of the period	**14**	**419 970 493**	**306 499 826**

Interest received and paid for the year ended December 31, 2018 amounted to RUB 19 581 816 thousand and RUB 450 627 thousand respectively.

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

Central Counterparty National Clearing Center

Statement of Changes in Equity
(in thousands of Russian rubles)

	Notes	Share capital	Paid-in capital	Investments revaluation reserve	Payments based on the shares of the parent	Retained earnings	Total equity
December 31, 2016		**16 670 000**	**347 144**	**942 571**	**44 685**	**39 533 920**	**57 538 320**
Comprehensive income for the period		**-**	**-**	**349 088**	**-**	**16 356 202**	**16 705 290**
Transactions with owners							
Dividends declared		-	-	-	-	(17 699 539)	(17 699 539)
Payments based on the shares of the parent company	9	-	-	-	(15 507)	35 559	20 052
Total transactions with owners		**-**	**-**	**-**	**(15 507)**	**(17 663 980)**	**(17 679 487)**
December 31, 2017		**16 670 000**	**347 144**	**1 291 659**	**29 178**	**38 226 142**	**56 564 123**
Effect of IFRS 9 adoption (Note 3)				**258 104**		**(287 213)**	**(29 109)**
January 1, 2018 (with IFRS 9 effect)	**-**	**16 670 000**	**347 144**	**1 549 763**	**29 178**	**37 938 929**	**56 535 014**
Comprehensive income for the period		**-**	**-**	**(3 282 910)**	**-**	**15 499 494**	**12 216 584**
Transactions with owners							
Dividends declared		-	-	-	-	(3 799 927)	(3 799 927)
Payments based on the shares of the parent company	9	-	-	-	12 185	23 130	35 315
Total transactions with owners		**-**	**-**	**-**	**12 185**	**(3 776 797)**	**(3 764 612)**
December 31, 2018		**16 670 000**	**347 144**	**(1 733 147)**	**41 363**	**49 661 626**	**64 986 986**

Notes 1-31 form an integral part of these financial statements.

1. Organization

Non-banking credit institution - Central Counterparty National Clearing Centre (NCC) is a joint-stock organization, which was incorporated in the Russian Federation in 2006. NCC is regulated by the Central Bank of the Russian Federation ("Bank of Russia") and conducts its banking and clearing activities under general license No.3466-CC and license No. 077-00003-000010, respectively.

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

NCC is a member of Moscow Exchange Group ("Group") and as at December 31, 2018 and December 31, 2017, 100% of NCC's shares are held by PJSC Moscow Exchange MICEX-RTS ("Moscow Exchange").

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

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

Financial Statements of NCC were approved for issuance by the Management on March 29, 2019.

2. Basis of presentation

Significant accounting policies

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

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

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

NCC maintains its accounting records in accordance with Russian Accounting Standards ("RAS"). These financial statements have been prepared from NCC's statutory accounting records and have been adjusted to conform to IFRS.

3. Significant accounting policies

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

	December 31, 2018	December 31, 2017
USD	69,4706	57,6002
EUR	79,4605	68,8668

3. Significant accounting policies (continued)

The accounting policies adopted by NCC in the preparation of these Financial Statements are consistent with those followed in the preparation of NCC's Financial Statements for the year ended December 31, 2017, except for the accounting policies and impact of the adoption of the following new and amended Standards and Interpretations:

IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers (and the related Clarifications)*
Amendments to IAS 40	*Transfers of Investment Property*
Amendments to IFRSs	*Annual Improvements to IFRS Standards 2014-2016 Cycle*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*

The adoption of these new and revised Standards and Interpretations (except the adoption of IFRS 9 "Financial Instruments") has not resulted in significant changes to NCC's accounting policies that have affected the amounts reported for the current or prior years.

Impact of initial application of IFRS 9 *Financial Instruments.* January 1, 2018 is the date of initial application of IFRS 9 in accordance with IFRS 9 article 7.2.2. Corresponding information was not restated, as the modified retrospective approach was applied on transition, which allows recognition of differences to be accounted for in the opening retained earnings at the beginning of the period.

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

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

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

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

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

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

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

3. Significant accounting policies (continued)

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

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

An assessment of business models for managing financial assets is performed at the date of initial application of IFRS 9 to determine the classification of a financial asset. The business model is applied prospectively to all financial assets existing at the date of initial application of IFRS 9. An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. NCC determines the business models on the basis that reflects how groups of financial assets are managed together to achieve a particular business objective. NCC's business models do not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

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

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

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

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

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

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

3. Significant accounting policies (continued)

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

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

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

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

Financial assets at FVTPL are:

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

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

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

Reclassifications. If the business model under which NCC holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day following the change in business model that results in reclassification NCC's financial assets. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

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

- due from financial institutions;
- cash and cash equivalents;
- debt investment securities;
- other financial assets subject to credit risk.

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

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

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

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

3. Significant accounting policies (continued)

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

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

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

The risks of non-fulfilment or improper fulfilment of clearing participants obligations on the CCP deals are managed using the following risk-management system measures, organised according to the federal law as of 07.02.2011 №7-FZ "On clearing, clearing activities and the central counterparty":

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

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

NCC considers the following as constituting an event of default:

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

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

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

3. Significant accounting policies (continued)

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

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

To determine PD NCC uses:

- available data from international rating agencies;
- internal ratings if the data mentioned above is unavailable.

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

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

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

(a) contractual cash flows after modification are no longer SPPI;
(b) change in currency;
(c) change of counterparty;
(d) the extent of change in interest rates;
(e) maturity.

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

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

3. Significant accounting policies (continued)

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, NCC determines whether the credit risk associated with the financial asset has increased significantly since initial recognition by comparing:

- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- the remaining lifetime PD at the reporting date based on the modified terms.

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

NCC derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If NCC neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, NCC recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If NCC retains substantially all the risks and rewards of ownership of a transferred financial asset, NCC continues to recognise the financial asset.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss. The cumulative gain/loss on equity investment designated as measured at FVTOCI, previously recognised in OCI is not subsequently reclassified to profit or loss.

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

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

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

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

(in thousands of Russian rubles, unless otherwise indicated)

3. Significant accounting policies (continued)

The table below illustrates the classification and measurement of financial assets and financial liabilities and the corresponding effect on equity and deferred tax under IFRS 9 and IAS 39 at the date of initial application January 1, 2018:

	Original measurement category under IAS 39	New measurement category under IFRS 9	Original carrying amount under IAS 39	Additional loss allowance under IFRS 9	Reclassification of carrying amount IFRS 9	New carrying amount under IFRS 9
Cash and cash equivalents	Loans and receivables	Financial assets at AC	306 499 826	(5 220)	-	306 494 606
Financial assets at fair value through profit or loss	Financial assets at FVTPL	Financial assets at FVTPL	413 618	-	7 512 478	7 926 096
Due from financial institutions	Loans and receivables	Financial assets at AC	51 429 690	(23 644)	-	51 406 046
Central counterparty financial assets	Loans and receivables (repo) / assets at FVTPL (currency)	Financial assets at AC (repo) / assets at FVTPL (currency)	2 430 083 747	-	-	2 430 083 747
Financial assets at fair value though other comprehensive income	Available-for-sale	Financial assets at FVOCI	196 897 672	-	(7 510 646)	189 387 026
Other financial assets	Loans and receivables	Financial assets at AC	2 677 821	(9 353)	-	2 668 468
Balances of market participants	Financial liabilities at AC	Financial liabilities at AC	507 206 788	-	-	507 206 788
Central counterparty financial liabilities	Financial liabilities at AC (repo) / FVTPL (currency)	Financial liabilities at AC (repo) / FVTPL (currency)	2 430 083 747	-	-	2 430 083 747
Other financial liabilities	AC (other)	AC (other)	702 061	-	-	702 061
Deferred tax asset	n/a	n/a	168 519	7 642	(366)	175 795
Corresponding lines in Equity:						
Investments revaluation reserve	n/a	n/a	1 291 659	258 589	(485)	1 549 763
Retained earnings	n/a	n/a	38 226 142	(289 164)	1 951	37 938 929

3. Significant accounting policies (continued)

The additional loss allowance recognised upon the initial application of IFRS 9 as disclosed above resulted entirely from a change in the measurement attribute of the loss allowance relating to each financial asset (Note 11). The change in measurement category of the different financial assets had no significant impact on their respective carrying amounts on initial application. There were no financial assets or liabilities which NCC elected to designate as at FVTPL at the date of initial application. There were no equity instruments the changes in fair value of which irrevocably elected to present in other comprehensive income.

Reclassification of carrying amount was due to the following:

- movement of equity investments from AFS to FVTPL in the amount of RUB 3 534 thousand;
- movement of debt instruments with contractual cash flows that are not SPPI from AFS to FVTPL in the amount of RUB 7 508 945 thousand.

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

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

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

In addition to such daily security deposits, a clearing participants, are required to make contributions to guarantee funds as described in Note 29.

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

A financial liability is classified as held for trading if:

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

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with NCC's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire hybrid (combined) contract to be designated as at FVTPL.

3. Significant accounting policies (continued)

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

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

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

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

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

Useful lives of property and equipment. Depreciation is recognized so as to write off the cost or revalued amount of property and equipment less their residual value over their useful lives, using the straight-line method. The estimated useful lives, carrying amounts and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Depreciation rate used in 2018: 20%-48% (2017: 20%-48%).

Intangible assets*.* Intangible assets with finite useful lives are carried at cost less any accumulated amortization and any accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. Estimated useful lives and amortization method are reviewed at the end of each reporting period with the effect of any changes in estimates being accounted for on a prospective basis. Amortization rates used for intangibles assets in 2018 were 10%-33% (2017: 10%-33%).

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

Taxation. Income tax expense comprises current and deferred tax.

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

3. Significant accounting policies (continued)

Deferred tax. Deferred income tax is recognized for all temporary differences arising between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences provided it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Tax assets and liabilities are not recognized if temporary differences arise from the initial recognition of other assets or liabilities in transactions that affect neither taxable nor accounting profit.

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

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

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

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

Payments based on the shares of the parent company. NCC grants the right to some employees of NCC to purchase equity instruments of Moscow Exchange on the terms settled in individual contracts.

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

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and NCC’s best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period (Note 9).

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

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

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

3. Significant accounting policies (continued)

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

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

Adoption of new standarts and amendments. The adoption of the following new standards and amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) has not had any material impact on the disclosures or on the amounts reported in these financial statements:

***IFRS 15 Revenue from Contracts with Customers*.** The new standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed.

Specifically, the Standard introduces a 5-step approach to revenue recognition:

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

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

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

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

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

The management do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of NCC in future periods. New and revised IFRSs in issue but not yet effective are presented below:

3. Significant accounting policies (continued)

IFRS 16 *Leases*

***General impact of application of IFRS 16 Leases*.** IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after January 1, 2019. The date of initial application of IFRS 16 for NCC will be January 1, 2019.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

Impact of the new definition of a lease. NCC will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before January 1, 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- the right to obtain substantially all of the economic benefits from the use of an identified asset; and
- the right to direct the use of that asset.

NCC will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after January 1, 2019 (whether it is a lessor or a lessee in the lease contract).

Impact on Lessee Accounting

<u>Operating leases.</u> IFRS 16 will change how NCC accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), NCC will:

(a) Recognise right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
(b) Recognise depreciation of right-of-use assets and interest on lease liabilities in the statement of comprehensive income;
(c) Separate the total amount of cash paid into a principal portion and interest in the cash flow statement.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), NCC will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

As at December 31, 2018 NCC has non-cancellable operating lease commitments of RUB 30 million. A preliminary assessment indicates that almost all of these arrangements relate to leases other than short-term leases and leases of low-value assets, and hence NCC will recognise a right-of-use asset of RUB 400 million and a corresponding lease liability in equal amount in respect of all these leases. The impact on profit or loss is to decrease rent and office maintenance expense within general and administrative expenses by RUB 80 million, to increase depreciation by RUB 40 million and to increase interest expense by RUB 40 million.

3. Significant accounting policies (continued)

Under IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under IFRS 16 would be to present the amount of cash paid related to leases other than short-term leases and leases of low-value assets in net cash used in financing activities.

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

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

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

The Standard is effective for annual reporting periods beginning on or after January 1, 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

For the purpose of the transition requirements, the date of initial application is the start if the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application. The management of NCC do not anticipate that the application of the Standard in the future will have an impact on NCC's financial statements as NCC does not have instruments in scope of this standard.

Amendments to IFRS 9 *Prepayment Features with Negative Compensation.* The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after January 1, 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

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

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures. The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount reauired by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The amendments apply retrospectively to annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9.

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

3. Significant accounting policies (continued)

Annual Improvements to IFRS Standards 2015-2017 Cycle Amendments to IFRS 3 *Business Combinations,* IFRS 11 *Joint Arrangements,* IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs.* The Annual Improvements include amendments to four Standards.

IAS 12 Income Taxes. The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

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

IFRS 3 Business Combinations. The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

IFRS 11 Joint Arrangements. The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation.

All the amendments are effective for annual periods beginning on or after January 1, 2019 and generally require prospective application. Earlier application is permitted. The management of NCC do not anticipate that the application of the amendments in the future will have an impact on NCC's financial statements.

Amendments to IAS 19 *Employee Benefits Plan Amendment, Curtailment or Settlement*. The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to aetermine current service cost ana net interest for the remainder of the reporting period after the change to the plan, in the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasurea unaer IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The amendments are applied perspectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied. The amendments to IAS 19 must be applied to annual periods beginning on or after January 1, 2019, but they can be applied earlier if an entity elects to do so.

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

3. Significant accounting policies (continued)

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

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The management of NCC anticipate that the application of these amendments may have an impact on NCC's financial statements in future periods should such transactions arise.

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

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - if yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  - if no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after January 1, 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prespectively.

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

Amendments to IFRS 3 ***Definition of Business*****.** The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The definitions of a business and of outputs were narrowed by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs.

The amendments also remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs and add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. Earlier application is permitted. The management of NCC do not anticipate that the application of the amendments in the future will have an impact on NCC's financial statements.

3. Significant accounting policies (continued)

Amendments to IAS 1 and IAS 8 *Definition to Material*. The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency. The amendments are applied prospectively for annual periods beginning on or after1 January 2020, with earlier application permitted. The management of NCC do not anticipate that the application of the amendments in the future will have an impact on NCC's financial statements.

4. Critical accounting judgments and key sources of estimation uncertainty

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

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

Key sources of estimation uncertainty

Business model assessment. Classification and measurement of financial assets depends on the results of the SPPI and the business model test. NCC determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective (for more details refer to Note 2). NCC monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. NCC conducts assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change and so a prospective change to the classification of those assets.

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

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 27.

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

Probability of default. PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. See Note 29 for more details, including analysis of the sensitivity of the reported ECL to changes in PD resulting from changes in economic drivers.

(in thousands of Russian rubles, unless otherwise indicated)

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

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

Lawsuits provision. The companies of NCC are subject to litigation. Such litigation may lead to orders to pay against the entities of NCC. If it is more likely than not that an outflow of resources will occur, a provision will be recognised based on an estimate of the most probable amount necessary to settle the obligation if such amount is reasonably estimable. NCC determines whether there is a possible obligation from past events, evaluates the probability that an outflow will occur and estimates the potential amount of the outflow. As the outcome of litigation is usually uncertain, the judgement is reviewed continuously. See Note 12 for further information.

5. Interest income and expense

	Year ended December 31, 2018	Year ended December 31, 2017
Interest income on financial assets at fair value		
Interest income on financial assets at fair value through other comprehesive income	10 819 012	11 226 471
Interest income on financial assets at fair value through profit or loss	153 980	-
Total interest income on financial assets at fair value	**10 972 992**	**11 226 471**
Interest income on financial assets at amortized cost		
Interest income on due from banks and other financial institutions	3 986 191	2 140 860
Interest income on cash and cash equivalents	1 178 902	1 147 824
Total interest income on financial assets at amortized cost	**5 165 093**	**3 288 684**
Total interest income	**16 138 085**	**14 515 155**
Interest expense		
Interest expense on accounts of clearing participants	(271 154)	(40 258)
Interest expense on term deposits	(155 344)	(818 124)
Interest expense on stress collateral	(17 589)	(166 099)
Interest expense on REPO deals and other borrowed funds	(2 695)	(149 342)
Total interest expense	**(446 782)**	**(1 173 823)**
Net interest income	**15 691 303**	**13 341 332**

6. Fee and commission income

	Year ended December 31, 2018	Year ended December 31, 2017
Clearing services for money market	4 243 059	3 771 510
Clearing services for foreign exchange market	1 741 887	1 639 634
Clearing services for securities market	1 700 484	1 500 868
Clearing services for derivatives market	216 829	27 007
Other commissions	188 736	24 271
Total fee and commission income	**8 090 995**	**6 963 290**

(in thousands of Russian rubles, unless otherwise indicated)

6. Fee and commission income (continued)

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

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

	Year ended December 31, 2018	Year ended December 31, 2017
Foreign exchange swaps	(1 935 588)	410 114
Net other foreign exchange gains/(losses)	8 980	(3 030)
Total foreign exchange gains less losses	**(1 926 608)**	**407 084**

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

8. Other operational income

	Six-month period ended June 30, 2018	Six-month period ended June 30, 2017
Movement in allowance for expected credit losses (Note 11)	124 339	-
Other income	31 783	2 068
Total other operating income	**156 122**	**2 068**

9. Personnel expenses

	Year ended December 31, 2018	Year ended December 31, 2017
Personnel expenses	531 581	520 979
Payroll taxes and charges	96 641	95 492
Payments based on the shares of the parent company	35 315	20 052
Total personnel expenses	**663 537**	**636 523**

(in thousands of Russian rubles, unless otherwise indicated)

9. Personnel expenses (continued)

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

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

	Number	WAEP
Outstanding at January 1, 2017	**2 916 669**	**62,7**
Granted during the year	1 950 000	109,1
Forfeited	(333 334)	46,9
Redeemed	(616 134)	63,2
Exercised	(800 534)	63,2
Outstanding at December 31, 2017	**3 116 667**	**68,26**
Granted during the year	3 000 000	115,4
Exercised	(1 166 667)	66,7
Outstanding at December 31, 2018	**4 950 000**	**112,9**

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

The weighted average remaining contractual life for the rights outstanding as at December 31, 2018 was 1 year (December 31, 2017: 1 year). The weighted average fair value of rights granted during the year ended December 31, 2018 was RUB 17,87 per 1 right. Exercise prices for rights outstanding as at December 31, 2018 were RUB 107,96 – RUB 115,38 (December 31, 2017: RUB 60,64,9 – RUB 109,4).

The number of equity rights exercisable as at December 31, 2018 is 390 000 with WAEP of RUB 109,1 (December 31, 2017: 166 667 with WAEP of RUB 60,64).

10. Administrative and other operating expenses

	Year ended December 31, 2018	Year ended December 31, 2017
Professional services	329 198	112 096
Maintenance of property and equipment and intangible assets	94 361	83 865
Settlement services and bank fees	87 214	122 623
Depository services	72 820	27 212
Taxes, other than income tax	59 971	80 792
Lease of property and equipment	59 808	62 483
Information and technological services	54 893	260 724
Depreciation and amortization charge	50 327	32 875
Communications services	7 080	7 110
Other	30 893	18 859
Total administrative and other operating expenses	**846 565**	**808 639**

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

(in thousands of Russian rubles, unless otherwise indicated)

11. Movement in allowance for expected credit losses

	Cash and cash equivalents	Due from credit institutions	Financial assets at fair value through other comprehen-sive income	Other financial assets	Total
Note	*14*	*16*		*23*	
December 31, 2016	**-**	**-**	**-**	**22 907**	**22 907**
Net charge for the period	-	-	-	(22 442)	(22 442)
December 31, 2017	**-**	**-**	**-**	**465**	**465**
Effect of IFRS 9 adoption (Note 3)	5 220	23 644	323 236	9 353	361 453
January 1, 2018 (with IFRS 9 effect)	**5 220**	**23 644**	**323 236**	**9 818**	**361 918**
Net (reversal) / charge for the period	(582)	12 225	(139 397)	3 415	(124 339)
December 31, 2018	**4 638**	**35 869**	**183 839**	**13 233**	**237 579**

The allowance for expected credit losses of NCC consists of the loss allowance measured at an amount equal to 12-month expected credit losses for Stage 1 assets, and the loss allowance measured at an amount equal to lifetime expected credit losses for Stage 2 and Stage 3 assets. As at December 31, 2018 and January 1, 2018 all financial assets of NCC ralate to Stage 1.

For financial assets at fair value through other comprehensive income: the allowance for expected credit losses of financial assets at fair value through other comprehensive income is not included in Statement of Financial Position as such assets are measured at fair value. At the same time estimated allowance for expected credit losses is included in investments revaluation reserve.

12. Other operating expenses

Other operating expenses consist of RUB 856 885 thousand due to an operational error and RUB 873 040 thousand provision on a legal case. Further details are provided below.

A professional participant in the money market defaulted. During the default management procedure a partial release of collateral was triggered due to an operational error. The remaining collateral on the participant's accounts within NCC was insufficient to cover its corresponding liabilities to NCC as a result RUB 856 885 thousand were paid out from NCC's funds and the related amount receivable from the participant was written off as bad debt (Note 23). In June 2018 NCC filed a claim to declare that professional participant bankrupt due to non-fulfillment of its liabilities. Bankruptcy proceedings were initiated. NCC implemented a set of measures to preclude the recurrence of such an operational event in the future.

In December 2015, a brokerage company defaulted on its liabilities to NCC that were foreclosed via standard default management procedures explicitly stipulated by the Law "On clearing, clearing activities and the central counterparty" to cover the liabilities to bona fide market and clearing participants. In September 2016, the broker was declared bankrupt. In October 2017, the bankruptcy manager filed a lawsuit with the arbitration court, seeking to declare the deals on foreclosure as void. In March 2018, the court of first appearance ruled to fulfill plaintiffs' demands. NCC responded with an appeal. The CBR filed the similar appeal against the court of first appearance' decision. In July 2018, the court of appeals ruled against the joint complaint of NCC and the CBR, fulfilling plaintiffs' demands to return RUB 873 04 thousand to the general mass of bankrupt's estate. At the same time, the court recognized NCC's right to claim the abovementioned amount from the general mass of bankrupt's estate. NCC made a 100% provision and filed a cassation against the court of appeals' decision. In November 2018 NCC's cassation was satisfied. In January 2019 the plaintiffs applied to the Supreme Court. NCC is confident in its legal positon.

(in thousands of Russian rubles, unless otherwise indicated)

13. Income tax expense

	Year ended December 31, 2018	Year ended December 31, 2017
Current income tax expense	974 837	2 280 063
Current income tax expense related to previous years	507 504	-
Deferred taxation movement	2 019 618	1 468 148
Total income tax expense	**3 501 959**	**3 748 211**

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

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

	Year ended December 31, 2018	Year ended December 31, 2017
Profit before income tax	**19 001 453**	**20 104 414**
Tax at the statutory tax rate (20%)	3 800 291	4 020 883
Tax effect of income taxed at rates other than the 20% rate	(324 212)	(267 205)
Adjustments in respect of current income tax of previous years	507 504	-
Deferred tax from a previously unrecognised temporary difference of a prior period	(507 504)	-
Tax effect of permanent differences	25 880	(5 467)
Income tax expense	**3 501 959**	**3 748 211**

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

(in thousands of Russian rubles, unless otherwise indicated)

13. Income tax expense (continued)

Tax effect of temporary differences as at December 31, 2018 and December 31, 2017 comprise:

	Statement of financial position		Recognized in statement of comprehensive income	
	December 31, 2018	**December 31, 2017**	**Year ended December 31, 2018**	**Year ended December 31, 2017**
Effect of deductible temporary differences				
Due from financial institutions	8 101	-	825	-
Financial assets at fair value though other comprehesive income	-	-	(152 682)	-
Financial assets available-for-sale	-	152 682	-	(1 475 346)
Property and equipment and intangible assets	1 715	1 216	499	767
Other assets	1 870	-	1 870	(5 718)
Other liabilities	438 586	116 539	322 047	26 795
Total effect of deductible temporary differences	**450 272**	**270 437**	**172 559**	**(1 453 502)**
Effect of taxable temporary differences				
Financial assets at fair value through profit or loss	(180 486)	(82 724)	(97 762)	(82 724)
Financial assets at fair value though other comprehesive income	(1 292 881)	-	(2 113 609)	-
Financial assets available-for-sale	-	-	-	87 272
Other assets	-	(19 194)	19 194	(19 194)
Total effect of taxable differences	**(1 473 367)**	**(101 918)**	**(2 192 177)**	**(14 646)**
Total deferred income tax expense			**(2 019 618)**	**(1 468 148)**
Deferred tax (liabilities) / assets	**(1 023 095)**	**168 519**		

	Year ended December 31, 2018	**Year ended December 31, 2017**
Beginning of the period – deferred tax assets	**168 519**	**1 723 939**
Beginning of the period – deferred tax assets (liabilities) (with IFRS 9 effect)	**175 795**	**1 723 939**
Change in deferred tax recognized in profit or loss	(2 019 618)	(1 468 148)
Change in deferred tax recognized in other comprehensive income	820 728	(87 272)
End of the period – deferred tax (liabilities) /assets	**(1 023 095)**	**168 519**

(in thousands of Russian rubles, unless otherwise indicated)

14. Cash and cash equivalents

	December 31, 2018	December 31, 2017
Correspondent accounts and overnight deposits with other credit organizations	405 502 331	280 497 468
Balances with the CBR	14 463 577	25 999 078
Cash on hand	3 518	2 745
Settlements on brokerage operations	1 067	535
Total cash and cash equivalents	**419 970 493**	**306 499 826**
Less allowance for impairment (Note 11)	(4 638)	-
Total cash and cash equivalents	**419 965 855**	**306 499 826**

As at December 31, 2018 cash and cash equivalents include balances with nine counterparties (December 31, 2017: with ten counterparties) in the amount of RUB 410 329 819 thousand (December 31, 2017: RUB 298 545 983 thousand), which is a significant concentration.

15. Financial assets at fair value through profit or loss

	December 31, 2018	December 31, 2017
Corporate debt securities issued by non-residents	3 188 474	-
Fair value of foreign currency derivatives (Note 29)	1 018 696	413 618
Shares issued by foreign companies	4 510	-
Total financial assets at fair value though profit or loss	**4 211 680**	**413 618**

16. Due from banks and other financial institutions

	December 31, 2018	December 31, 2017
Reverse repurchase agreements with financial institutions	48 382 748	46 935 227
Term deposits	34 344 925	1 179 486
Deposits in precious metals	4 015 852	-
Correspondent accounts in precious metals	285 926	3 314 977
Total due from banks and other financial institutions	**87 029 451**	**51 429 690**
Less allowance for impairment (Note 11)	(35 869)	-
Total due from financial institutions	**86 993 582**	**51 429 690**

As at December, 31 2018, due from banks and other financial institutions include balances with five counterparties (December 31, 2017: with two counterparties) in the amount of RUB 82 727 672 thousand (December 31, 2017: RUB 46 935 198 thousand), which represents significant concentration.

As at December 31, 2018, the fair value of bonds pledged under reverse repurchase agreements with financial institutions was RUB 59 455 333 thousand (December 31, 2017: RUB 61 015 651 thousand).

(in thousands of Russian rubles, unless otherwise indicated)

17. Financial assets and liabilities of central counterparty

	December 31, 2018	**December 31, 2017**
Repo transactions	3 310 008 235	2 428 116 927
Currency transactions	2 011 854	1 966 820
Total financial assets and liabilities of central counterparty	**3 312 020 089**	**2 430 083 747**

Assets from repo transactions represent amounts receivable under reverse repurchase agreements, and liabilities from repo transactions represent amounts payable under respective direct repurchase agreements entered by NCC in its capacity of central counterparty. Fair value of securities pledged as collateral under direct repo transactions is RUB 3 706 037 111 thousand (December 31, 2017: RUB 2 792 270 753 thousand).

CCP financial assets and liabilities under currency transactions represent fair values of overnight currency deals. Gross claims and liabilities with individual counterparties are offset in accordance with IAS 32. Information about financial assets offset against financial liabilities in the statement of financial position is disclosed in Note 30.

As at December 31, 2018 there was no allowance created for financial assets of central counterparty (December 31, 2017: no allowance) and these financial assets were not overdue (December 31, 2017: not overdue).

18. Financial assets at fair value though other comprehesive income

	December 31, 2018	**December 31, 2017**
Bonds issued by Russian Federation	121 718 704	-
Bonds issued by Russian companies	44 881 749	-
Bonds issued by Russian commercial banks	17 590 730	-
Bonds issued by CBR	10 076 446	-
Bonds issued by international financial organizations	3 592 798	-
Financial assets at fair value though other comprehesive income	**197 860 427**	**-**

19. Financial assets available-for-sale

	December 31, 2018	**December 31, 2017**
Bonds issued by Russian Federation	**-**	**111 792 407**
Bonds issued by Russian companies	**-**	**60 388 265**
Bonds issued by Russian commercial banks	**-**	**21 674 739**
Bonds issued by international financial organizations	**-**	**3 040 560**
Corporate shares	**-**	**1 701**
Financial assets available-for-sale	**-**	**196 897 672**

(in thousands of Russian rubles, unless otherwise indicated)

20. Property, equipment and intangible assets

	Furniture & Equipment	Intangible assets	Trademark	Intangible assets in progress	Total
Cost					
December 31, 2016	**47 322**	**187 137**	**-**	**-**	**234 459**
Additions	26 231	37 204	1 830	45 800	111 065
Disposals	(54)	(440)	-	-	(494)
December 31, 2017	**73 499**	**223 901**	**1 830**	**45 800**	**345 030**
Additions	1 740	67 101	-	-	68 841
Write-off	-	(198)	-	-	(198)
Transfer	-	33 131	-	(33 131)	-
December 31, 2018	**75 239**	**323 935**	**1 830**	**12 669**	**413 673**
Accumulated depreciation					
December 31, 2016	**39 791**	**91 146**	**-**	**-**	**130 937**
Charge for the period	8 675	24 014	186	-	32 875
Eliminated on disposal	(54)	(440)	-	-	(494)
December 31, 2017	**48 412**	**114 720**	**186**	**-**	**163 318**
Charge for the period	14 055	36 011	261	-	50 327
Eliminated on disposal	-	(198)	-	-	(198)
December 31, 2018	**62 467**	**150 532**	**447**	**-**	**213 446**
Net book value					
December 31, 2017	**25 087**	**109 181**	**1 644**	**45 800**	**181 712**
December 31, 2018	**12 772**	**173 403**	**1 383**	**12 669**	**200 227**

As at December 31, 2018 NCC's historical cost of fully depreciated property and equipment amounts to RUB 47 267 thousand (December 31, 2017: RUB 44 263 thousand).

(in thousands of Russian rubles, unless otherwise indicated)

21. Other assets

	December 31, 2018	December 31, 2017
Other financial assets		
Receivables on services rendered	191 209	98 075
Less allowance for impairment (Note 11)	(13 233)	(465)
Total other financial assets	**177 976**	**97 610**
Other non-financial assets		
Precious metals	1 976 758	2 539 036
Prepayments and other receivables	50 281	39 621
Taxes receivable other than income tax	1 232	1 554
Total other non-financial assets	**2 028 271**	**2 580 211**
Total other assets	**2 206 247**	**2 677 821**

22. Customer accounts

	December 31, 2018	December 31, 2017
Accounts of clearing participants	608 809 621	473 230 884
Current accounts	16 897 517	21 331 760
Accounts in precious metals	6 278 435	5 854 012
Guarantee fund on securities, deposit and derivatives markets	3 612 447	4 265 159
Guarantee fund on foreign currency market and precious metals market	2 489 009	2 041 469
Margin account	979 567	384 647
Term deposits	-	98 857
Total customer accounts	**639 066 596**	**507 206 788**

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

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

(in thousands of Russian rubles, unless otherwise indicated)

23. Other liabilities

	December 31, 2018	December 31, 2017
Other financial liabilities		
Payables to personnel	203 070	224 111
Payables for depositary and settlement operations	127 210	49 810
Payables to clearing participants with revoked licences	91 430	30 020
Payables for unused vacations	25 206	25 014
Payables on information and technological services	16 957	26 626
Other	37 891	21 839
Total other financial liabilities	**501 764**	**377 420**
Other non-financial liabilities		
Provision (Note 12)	873 040	-
Deferred commission income	250 340	321 513
Taxes payable, other than income tax	36 398	3 128
Total other liabilities	**1 661 542**	**702 061**

The movement of provision during the year ended December 31, 2018 is provided below:

	Year ended December 31, 2018
Beginning of the year	**-**
Net charge for the year (Note 12)	1 729 925
Write-offs (Note 12)	(856 885)
End of the year	**873 040**

24. Share capital and paid-in capital

As at December 31, 2018 and December 31, 2017 NCC's share capital consists of 16 670 000 issued and paid ordinary shares with the nominal value of RUB 1 thousand each.

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

Reserve fund is created as required by the regulations of the Russian Federation, to cover general banking risks, including future losses and other unforeseen risks or contingencies. As at December 31, 2018, the reserve fund amounted to RUB 966 775 thousand (December 31, 2017: RUB 966 775 thousand). Reserve fund is stated as a part of retained earnings.

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

- Dedicated capital of CCP which is intended to cover possible losses resulting from a default or improper performance of their obligations by clearing participants, in amount of RUB 9 500 000 thousand (December 31, 2017: RUB 9 500 00 thousand);
- funds for termination or restructuring of CCP activities, in amount of RUB 693 200 thousand (December 31, 2017: RUB 599 109 thousand);
- funds to cover possible losses from deterioration of the CCP's financial position, not associated with defaults of clearing participants, in the amount of RUB 346 600 thousand (December 31, 2017: RUB 299 555 thousand).

(in thousands of Russian rubles, unless otherwise indicated)

25. Commitments and contingencies

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

	December 31, 2018	December 31, 2017
Less than 1 year	30 011	36 183

Operating lease commitments presented by the contracts with Group participants (Note 26).

Legal proceedings – In the normal course of business, claims against NCC may be received from customers and counterparties. Management believes that no significant losses will be incurred by NCC as a result of such complaints and accordingly no provisions have been made in these financial statements (Note 12).

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

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

Taxation – Major part of NCC's business activity is carried out in the Russian Federation. Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. NCC's interpretation of such legislation as applied to the transactions and activity of NCC may be challenged by the relevant regional and federal authorities. Tax authorities may be taking a more assertive position in their interpretation and application of this legislation and tax settlements review. However, the probability of unfavorable outcome in case of suits from tax authorities cannot be reliably measured.

In 2017 and 2018, the tax service of the Russian Federation decided to conduct a tax monitoring of NCC on accuracy of calculation, completeness and payment (transfer) timeliness of taxes and fees which is entrusted on taxpayers (tax agents) in accordance with the Tax Code of the Russian Federation. In December 2018 the tax service of the Russian Federation decided to conduct a tax monitoring of NCC in 2019.

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

Field tax control may cover three calendar years preceding the year of the first tax monitoring, for NCC this is 2016 respectively. Under certain conditions, in accordance with tax laws, earlier periods may also be subject to control.

In 2018 amendments were introduced to the Tax Code of the Russian Federation and certain other legislative acts, which provides, among other things, an increase in the general rate of Value Added Tax (VAT) from 18% to 20%. The new rates will apply to goods, work, services, and property rights supplied starting from January 1, 2019.

As at December 31, 2018 management believes that its interpretation of the relevant legislation is appropriate and that NCC's tax, currency and customs positions will be sustained.

(in thousands of Russian rubles, unless otherwise indicated)

26. Transactions with related parties

Control relationships. As at December 31, 2018 and December 31, 2017, NCC is a wholly owned subsidiary of Moscow Exchange. Russian Federation exercized significant influence over Moscow Exchange.

The statement of comprehensive income as of December 31, 2018 and December 31, 2017 includes the following amounts with related parties:

	Year ended December 31, 2018		Year ended December 31, 2017	
	Parent	**Other related parties**	**Parent**	**Other related parties**
Interest expense	-	(225)	(316 607)	(27 422)
Comission income (recoverable expenses)	5 662	(97 295)	4 866	(35 230)
Net loss on foreign exchange operations	-	(159 697)	-	(263 093)
Administrative and other operating expenses	(115 098)	(161 985)	(320 912)	(149 599)

The statement of financial position as at December 31, 2018 and December 31, 2017 includes the following amounts with related parties:

	December 31, 2018		December 31, 2017	
	Parent	**Other related parties**	**Parent**	**Other related parties**
Cash and cash equivalents	-	32 505 276	-	80 411 329
Property and equipment and intangible assets	-	-	1 634	-
Other assets	856	10	891	1
Financial assets at fair value though profit or loss	-	(17 018)	-	-
Balances of market participants	(13 914 108)	(76 053 326)	(18 348 847)	(62 880 621)
Other liabilities	(16 968)	(48 698)	(28 080)	(28 080)

As at December 31, 2018 operating lease commitments with Group particippants amounted to RUB 30 011 thousand (December 31, 2017: RUB 36 183 thousand).

Transactions with key management. Key management personnel comprises members of the Management Board and the Supervisory Board. The total remuneration of key management personnel includes short-term benefits (salary, bonuses, payroll related taxes, insurance, health care, etc.), long-term benefits and share-based payment expense.

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

	Year ended December 31, 2018	Year ended December 31, 2017
Other liabilities	21 317	19 303
Payments based on the shares of the parent company	41 363	29 178

(in thousands of Russian rubles, unless otherwise indicated)

26. Transactions with related parties (continued)

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

	Year ended December 31, 2018	**Year ended December 31, 2017**
Short-term employee benefits, except for share-based payments	125 484	119 814
Share-based payment expense	35 315	19 297
Long-term employee benefits	19 736	20 052
Total remuneration of key management personnel	**180 535**	**159 163**

Transactions with government-related entities. In the ordinary course of business NCC provides trading, clearing and depositary services to government-related entities, places funds with government-related banks and bonds issued by the Russian Federation and government-related entities. According to p.26 (b) of IAS 24 NCC discloses the following significant outstanding balances and financial results on operations with government-related entities as at December 31, 2018 and 2017 and for the years ended December 31, 2018 and December 31, 2017:

	Year ended December 31, 2018	**Year ended December 31, 2017**
Fee and commission income	2 458 284	2 217 548
Interest income	10 642 383	9 360 793
Interest expense	(223 319)	(687 653)
Net gain on financial assets available-for-sale	235 591	706 011
Administrative and other operating expenses	(71 294)	(2 338)

As at December 31, 2018 operations with government-related entities within central counterparty financial assets and liabilities amounted to 29,8% of total balance. (December 31, 2017: 11,4%).

27. Fair value measurements

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The foreign currency forward contracts are measured based on observable spot exchange rates and the yield curves of the respective currencies.

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

(in thousands of Russian rubles, unless otherwise indicated)

27. Fair value measurements (continued)

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

	December 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value though profit or loss	3 188 474	1 018 696	4 510	4 211 680
Central counterparty financial assets and liabilities (foreign currency operations)	2 011 854	-	-	2 011 854
Financial assets at fair value through other comprehensive income	182 023 127	15 837 300	-	197 860 427
Fair value of foreign currency derivatives (liabilities)	-	120 776	-	120 776

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

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

The fair value of "Cash and cash equivalents", "Due from banks and other financial institutions", "Other financial assets", "Customer accounts" and "Other financial liabilities" as at December 31, 2018 and December 31, 2017 refer to level 2 hierarchy of fair value.

During 2018 and 2017 there was no changes in estimates of fair value for Level 3 hierarchy.

Transfers between level 1 and 2. For assets and liabilities that are recognised at fair value on a recurring basis, NCC determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

	Transfers between Level 1 and Level 2	
	Year ended December 31, 2018	**Year ended December 31, 2017**
From Level 1 to Level 2		
Investments avaliable-for-sale	7 008 589	3 178 351
From Level 2 to Level 1		
Investments avaliable-for-sale	5 151 138	898 401

(in thousands of Russian rubles, unless otherwise indicated)

28. Capital management

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

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

NCC's general policy with respect the risks associated with capital management has not changed compared to 2017.

Under the current capital requirements set by the Central Bank of Russia, banks have to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. As at December 31, 2018 its minimum level was 100% (December 31, 2017: 100%). NCC was in compliance with the statutory capital ratio during the years ended December 31, 2018 and 2017.

	December 31, 2018	December 31, 2017
Equity	65 700 949	45 903 533
Risk weighted assets	42 885 737	28 653 891
Capital adequacy ratio (H1cc)	**153,2%**	**160,2%**
Statutory ratio of capital adequacy	100%	100%

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

29. Risk management policies

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

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

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

The key objectives of the RMS are the following:

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

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

29. Risk management policies (continued)

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

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

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

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

Key objectives of NCC's credit risk management:

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

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

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

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

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

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

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

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

(in thousands of Russian rubles, unless otherwise indicated)

29. Risk management policies (continued)

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

NCC uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. NCC employs experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The base case scenario is the single most-likely outcome and consists of information used by NCC for strategic planning and budgeting. NCC has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The table below summarizes the principal macroeconomic indicators included in the economic scenarios used at December 31, 2018 for the years 2019-2021, for Russia which is the country where NCC operates and therefore is the country that has a material impact in ECLs.

	2019	2020	2021
GDP growth	2,1%	2,0%	3,1%
Consumer price index	4,0%	3,8%	4,0%
Average nominal wage growth	4,1%	3,9%	4,1%
Money supply growth	9,0%	8,6%	9,0%
USD/RUB rate	64,70	63,84	63,98

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 5 years.

NCC has performed a sensitivity analysis on how ECL on the main portfolios will change if the key assumptions used to calculate ECL change by a certain percentage. The table below outlines the total ECL per portfolio as at December 31, 2018 if the assumptions used to measure ECL remain as expected (amount as presented in the statement of financial position), as well as if each of the key assumptions used change by plus or minus a certain percentage. The changes are applied in isolation for illustrative purposes, in order to develop the estimate of expected credit losses. In reality there will be interdependencies between the various economic inputs and the exposure to sensitivity will vary across the economic scenarios.

	As expected	Average PD	ECL Cum
	-3,0%	1,35%	261 092
GDP	-	1,23%	237 579
	+3,0%	1,11%	214 066
	-3,0%	1,30%	250 764
Consumer price index	-	1,23%	237 579
	+3,0%	1,16%	224 394
	-3,0%	1,27%	245 245
Average nominal wage	-	1,23%	237 579
	+3,0%	1,19%	229 913
	-5,0%	1,17%	226 805
Money supply	-	1,23%	237 579
	+5,0%	1,29%	248 353
	-15,0%	1,17%	226 572
USD/RUB rate	-	1,23%	237 579
	+15,0%	1,29%	248 586

As at December 31, 2018 and 2017, NCC has no modified financial assets as a result of NCC's forbearance activities and no amounts outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity.

(in thousands of Russian rubles, unless otherwise indicated)

29. Risk management policies (continued)

Maximum credit risk exposure. Financial assets are classified according to the current credit ratings issued by international rating agencies (Fitch Ratings, Standard & Poor's and Moody's Investor Service). The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB-. Financial assets which have ratings lower than BBB- are classed as speculative grade.

Cash and cash equivalents (Note 14) include accounts with National Settlement Depository ("NSD") of RUB 32 505 276 thousand (December 31, 2017: RUB 80 411 329 thousand). NSD has not been rated by the above-mentioned rating agencies, however the company was rated by Thomas Murray, which is a rating agency specializing in assigning ratings to custodians. As at December 31, 2018 NSD had AA- rating (December 31, 2017: AA-) which corresponds to the low risk level.

As at December 31, 2018 and December 31, 2017 balances with the CBR classified at the sovereign credit rating level of the Russian Federation.

The following tables detail the credit ratings of financial assets held by NCC as at December 31, 2018 and December 31, 2017:

	AA	A	BBB	less BBB-	Not rated	December 31, 2018 Total
FINANCIAL ASSETS:						
Cash equivalents	98 942 806	146 220 090	14 240 642	111 577 788	48 985 649	**419 966 975**
Financial assets at fair value though profit or loss	1 018 466	-	3 188 504	-	200	**4 207 170**
Due from financial institutions	-	-	9 060 137	73 667 536	-	**82 727 673**
Central counterparty financial assets	-	5 317 884	32 709 722	2 721 694 337	552 298 146	**3 312 020 089**
Financial assets at fair value through other comprehensive income	-	465 588	14 961 932	172 765 283	9 667 624	**197 860 427**
Other financial assets	-	85	11 037	62 785	117 302	**191 209**

	AA	A	BBB	less BBB-	Not rated	December 31, 2017 Total
FINANCIAL ASSETS:						
Cash equivalents	33 425 139	29 680 846	49 096 084	113 750 169	80 544 843	**306 497 081**
Mandatory cash balances with Central Bank of the Russian Federation	-	-	-	6 010 627	-	**6 010 627**
Financial assets at fair value though profit or loss	404 316	-	-	-	9 302	**413 618**
Due from financial institutions	-	-	1 179 486	46 935 227	-	**48 114 713**
Central counterparty financial assets	-	59 565	2 359 285	2 042 773 846	384 891 051	**2 430 083 747**
Investments available-for-sale	-	-	14 840 088	182 055 884	-	**196 895 972**
Other financial assets	-	-	2 461	22	95 127	**97 610**

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

(in thousands of Russian rubles, unless otherwise indicated)

29. Risk management policies (continued)

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

	Russian Federation	OECD countries	Other	December 31, 2018 Total
Financial assets				
Cash and cash equivalents	110 061 400	309 526 761	382 332	419 970 493
Financial assets at FVTPL	-	4 211 680	-	4 211 680
Due from financial institutions	82 727 673	-	-	82 727 673
Central counterparty financial assets	3 312 012 658	-	7 431	3 312 020 089
Financial assets at FVTOCI	172 760 841	21 506 788	3 592 798	197 860 427
Other financial assets	191 071	6	132	191 209
Total financial assets	**3 677 753 643**	**335 245 235**	**3 982 693**	**4 016 981 571**
Financial liabilities				
Customer accounts	629 617 397	1 721 156	1 449 608	632 788 161
Overnight bank loans	5 003 111	-	-	5 003 111
Derivatives recognized at fair value though profit and loss	82 225	38 551	-	120 776
Central counterparty financial liabilities	3 312 012 658	-	7 431	3 312 020 089
Other financial liabilities	429 302	72 462	-	501 764
Total financial liabilities	**3 947 144 693**	**1 832 169**	**1 457 039**	**3 950 433 901**

	Russian Federation	OECD countries	Other	December 31, 2017 Total
Financial assets				
Cash and cash equivalents	127 737 613	178 512 284	249 929	306 499 826
Mandatory cash balances with Central Bank of the Russian Federation	6 010 627	-	-	6 010 627
Financial assets at FVTOCI	9 302	404 316	-	413 618
Due from financial institutions	46 935 227	1 179 486	-	48 114 713
Central counterparty financial assets	2 430 083 747	-	-	2 430 083 747
Investments available-for-sale	153 366 735	43 530 937	-	196 897 672
Other financial assets	97 610	-	-	97 610
Total financial assets	**2 764 240 861**	**223 627 023**	**249 929**	**2 988 117 813**
Financial liabilities				
Customer accounts	499 104 663	1 307 670	940 443	501 352 776
Derivatives recognized at fair value though profit and loss	6 278	-	-	6 278
Central counterparty financial liabilities	2 430 083 747	-	-	2 430 083 747
Other financial liabilities	350 605	26 815	-	377 420
Total financial liabilities	**2 929 545 293**	**1 334 485**	**940 443**	**2 931 820 221**

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

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

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

(in thousands of Russian rubles, unless otherwise indicated)

29. Risk management policies (continued)

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

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

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

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

The sensitivity analysis presented below has been performed based on the risk of interest rate fluctuations as at the reporting date. The estimation is based on the assumption that the interest rate will change by 150 bp (December 31, 2017: 150 bp) which is in line with the Management's expectations with regard to a reasonably possible change in interest rates.

	December 31, 2018		December 31, 2017	
	Net profit	**Equity**	**Net profit**	**Equity**
150 bp parallel rise	(82 393)	(6 586 289)	-	(7 720 324)
150 bp parallel decrease	85 260	6 518 751	-	7 519 755

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

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

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

(in thousands of Russian rubles, unless otherwise indicated)

29. Risk management policies (continued)

NCC's exposure to currency risk is as follows:

	RUB	USD	EUR	Other currencies	December 31, 2018 Total
Financial assets					
Cash and cash equivalents	55 046 395	123 636 241	230 963 435	10 324 422	419 970 493
Financial assets at FVTPL	-	3 188 474	4 510	-	3 192 984
Due from financial institutions	34 392 786	48 334 887	-	-	82 727 673
Central counterparty financial assets	2 620 844 689	601 664 874	89 510 526	-	3 312 020 089
Financial assets at FVTOCI	99 745 279	64 427 943	33 687 205	-	197 860 427
Other financial assets	191 207	-	-	2	191 209
Total financial assets	**2 810 220 356**	**841 252 419**	**354 165 676**	**10 324 424**	**4 015 962 875**
Financial liabilities					
Customer accounts	110 741 987	205 175 429	306 580 618	10 290 127	632 788 161
Overnight bank loans	5 003 111	-	-	-	5 003 111
Central counterparty financial liabilities	2 620 844 689	601 664 874	89 510 526	-	3 312 020 089
Other financial liabilities	429 322	892	71 550	-	501 764
Total financial liabilities	**2 737 019 109**	**806 841 195**	**396 162 694**	**10 290 127**	**3 950 313 125**
Derivatives	(5 831 364)	(35 392 004)	42 121 201	87	897 920
Open position	**67 369 883**	**(980 780)**	**124 183**	**34 384**	

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

(in thousands of Russian rubles, unless otherwise indicated)

29. Risk management policies (continued)

The table below shows the analysis of derivatives of NCC as at December 31, 2018:

	Fair value of principal amount or agreed amount		Assets - positive fair value	Liabilities - negative fair value
	Receivables	**Payables**		
Currency swaps	55 946 021	(55 048 101)	1 018 696	(120 776)

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

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

Currency risk sensitivity. The following table details NCC's sensitivity to a 15% for USD and 20% for EURO (December 31, 2017: 6% for USD and 16% for EURO) increase and decrease in the Russian ruble exchange rate against relevant foreign currencies. The sensitivity rate represents NCC's assessment of the reasonably possible change in foreign exchange rates.

	December 31, 2018		December 31, 2017	
	USD 15%	**EUR 20%**	**USD 6%**	**EUR 16%**
Ruble appreciation	117 694	(19 869)	44 575	(173 383)
Ruble depreciation	(117 694)	19 869	(44 575)	173 383

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

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

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

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

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

29. Risk management policies (continued)

NCC's liquidity management procedures cover various forms of liquidity risk:

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

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

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

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

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

An analysis of liquidity risk is presented in the following table. The presentation below is based on information provided to NCC's key management. As at December 31, 2018 and December 31, 2017 financial assets available-for-sale, which are included into the Bank of Russia's Lombard list are presented within the category "Up to 1 month".

(in thousands of Russian rubles, unless otherwise indicated)

29. Risk management policies (continued)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More 5 years	Maturity undefined	December 31, 2018 Total
Financial assets							
Cash and cash equivalents	419 970 493	-	-	-	-	-	419 970 493
Financial assets at FVTPL	534 062	484 634	-	-	3 188 474	4 510	4 211 680
Due from financial institutions	16 469 325	28 308 264	37 950 084	-	-	-	82 727 673
Central counterparty financial assets	3 215 967 696	96 052 393	-	-	-	-	3 312 020 089
Financial assets at FVTOCI	185 741 732	-	1 084 571	8 876 413	2 157 711	-	197 860 427
Other financial assets	191 209	-	-	-	-	-	191 209
Total financial assets	**3 838 874 517**	**124 845 291**	**39 034 655**	**8 876 413**	**5 346 185**	**4 510**	**4 016 981 571**
Financial liabilities							
Customer accounts	632 788 161	-	-	-	-	-	632 788 161
Overnight bank loans	-	5 003 111	-	-	-	-	5 003 111
Derivatives recognized at fair value though profit and loss	120 776	-	-	-	-	-	120 776
Central counterparty financial liabilities	3 215 967 696	96 052 393	-	-	-	-	3 312 020 089
Other financial liabilities	-	299 646	173 985	28 133	-	-	501 764
Total financial liabilities	**3 848 876 633**	**101 355 150**	**173 985**	**28 133**	**-**	**-**	**3 950 433 901**
Liquidity gap	**(10 002 116)**	**23 490 141**	**38 860 670**	**8 848 280**	**5 346 185**	**4 510**	
Cumulative liquidity gap	**(10 002 116)**	**13 488 025**	**52 348 695**	**61 196 975**	**66 543 160**	**66 547 670**	

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More 5 years	Maturity undefined	December 31, 2017 Total
Financial assets							
Cash and cash equivalents	306 499 826	-	-	-	-	-	306 499 826
Mandatory cash balances with Central Bank of the Russian Federation	-	-	-	-	-	6 010 627	6 010 627
Fair value of foreign currency derivatives	413 618	-	-	-	-	-	413 618
Due from financial institutions	1 179 515	31 080 418	15 854 780	-	-	-	48 114 713
Central counterparty financial assets	2 110 096 016	103 121 695	216 866 036	-	-	-	2 430 083 747
Investments available-for-sale	177 983 540	-	14 169 087	4 020 920	722 424	1 701	196 897 672
Other financial assets	97 610	-	-	-	-	-	97 610
Total financial assets	**2 596 270 125**	**134 202 113**	**246 889 903**	**4 020 920**	**722 424**	**6 012 328**	**2 988 117 813**
Financial liabilities							
Customer accounts	501 352 776	-	-	-	-	-	501 352 776
Fair value of foreign currency derivatives	6 278	-	-	-	-	-	6 278
Central counterparty financial liabilities	2 110 096 016	103 121 695	216 866 036	-	-	-	2 430 083 747
Other financial liabilities	245 977	48 320	51 964	31 159	-	-	377 420
Total financial liabilities	**2 611 701 047**	**103 170 015**	**216 918 000**	**31 159**	**-**	**-**	**2 931 820 221**
Liquidity gap	**(15 430 922)**	**31 032 098**	**29 971 903**	**3 989 761**	**722 424**	**6 012 328**	
Cumulative liquidity gap	**(15 430 922)**	**15 601 176**	**45 573 079**	**49 562 840**	**50 285 264**	**56 297 592**	

To cover a possible liquidity deficit that exceeds the available funds, NCC has available liquidity reserves which include Bank of Russia refinancing instruments, including overdraft of correspondent account with Bank of Russia, lombard loans, REPO deals with securities, and direct REPO deals with banks against securities, interbank loans and operations on SWAP market.

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

29. Risk management policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

(in thousands of Russian rubles, unless otherwise indicated)

30. Offsetting of financial instruments

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

Direct and reverse repo transactions of CCP with individual counterparties are subject to clearing rules that create a contingent right of set-off that does not qualify for offsetting. Clearing participants are required to deposit collateral in the form of cash or securities for current deals and make contribution to guarantee funds, as described in Note 29. Clearing rules give NCC right to use these amounts under certain conditions (e.g. in case of default). However, offsetting criteria is not met as there is no intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

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

	Year ended December 31, 2018			Related amounts not set off in the statement of the financial position		
	Gross claims	**Gross liabilities**	**Net amount presented in financial statements**	**Financial instruments**	**Cash collateral received**	**Net amount**
Financial assets						
Due from financial institutions (Reverse repo receivables from financial institutions)	48 382 748	-	48 382 748	(48 382 748)	-	-
Central counterparty financial assets (repo transactions)	3 310 008 235	-	3 310 008 235	(3 310 008 235)	-	-
Central counterparty financial assets (currency transactions)	2 806 138	(794 284)	2 011 854	-	(2 011 854)	-
Total financial assets	**3 361 197 121**	**(794 284)**	**3 360 402 837**	**(3 358 390 983)**	**(2 011 854)**	**-**
Financial liabilities						
Central counterparty financial liabilities (repo transactions)	-	(3 310 008 235)	(3 310 008 235)	3 310 008 235	-	-
Central counterparty financial liabilities (currency transactions)	794 284	(2 806 138)	(2 011 854)	-	-	(2 011 854)
Margin account		(979 567)	(979 567)	-	-	(979 567)
Total financial liabilities	**794 284**	**(3 313 793 940)**	**(3 312 999 656)**	**3 310 008 235**	**-**	**(2 991 421)**

(in thousands of Russian rubles, unless otherwise indicated)

30. Offsetting of financial instruments (continued)

	Year ended December 31, 2017			Related amounts not set off in the statement of the financial position		
	Gross claims	Gross liabilities	Net amount presented in financial statements	Financial instruments	Cash collateral received	Net amount
Financial assets						
Due from financial institutions (Reverse repo receivables from financial institutions)	46 935 227	-	46 935 227	(46 935 227)	-	-
Central counterparty financial assets (repo transactions)	2 428 116 928	-	2 428 116 928	(2 428 116 928)	-	-
Central counterparty financial assets (currency transactions)	3 234 320	(1 267 500)	1 966 820	-	(1 966 820)	-
Total financial assets	**2 478 286 475**	**(1 267 500)**	**2 477 018 975**	**(2 475 052 155)**	**(1 966 820)**	**-**
Financial liabilities						
Central counterparty financial liabilities (repo transactions)	-	(2 428 116 928)	(2 428 116 928)	2 428 116 928	-	-
Central counterparty financial liabilities (currency transactions)	984 700	(2 951 500)	(1 966 800)	-	-	(1 966 800)
Margin account		(384 647)	(384 647)	-	-	(384 647)
Total financial liabilities	**984 700**	**(2 431 453 075)**	**(2 430 468 375)**	**2 428 116 928**	**-**	**(2 351 447)**

31. Subsequent events

In the first quarter of 2019 events occurred to NCC operating as a Commodity Delivery Operator impeding the inspection of commodities stored in some certified grain warehouses. The risks of a possible damage or shortfall of commodities are fully insured.

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