Central Counterparty National Clearing Centre

Interim Condensed Financial Statements
For the Six-month Period Ended June 30, 2018
(unaudited)

Central Counterparty National Clearing Center

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REPORT ON REVIEW
OF INTERIM CONDENSED FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying interim condensed statement of financial position of Central Counterparty National Clearing Centre as at June 30, 2018 and the related interim condensed statements of comprehensive income, changes in equity and cash flows for the six months then ended, and selected explanatory notes. Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim condensed financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, the financial position of the Central Counterparty National Clearing Centre as of June 30, 2018, and its financial performance and its cash flows for the six months then ended in accordance with IAS 34 *Interim Financial Reporting*.

Anna Zdanevych
Engagement leader

28 August 2018

The Entity: Central Counterparty National Clearing Centre

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

Primary State Registration Number: 1067711004481

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

Interim Condensed Statement of Comprehensive Income (unaudited)
(in thousands of Russian rubles)

	Notes	Six-month period ended June 30, 2018 (unaudited)	Six-month period ended June 30, 2017 (unaudited)
Interest income	5	7 963 603	7 339 017
Interest expense	5	(154 727)	(862 074)
Net interest income		**7 808 876**	**6 476 943**
Fee and commission income	6	3 870 545	3 188 429
Net gain on financial assets at fair value through profit or loss		17 453	(4 222)
Net gain on financial assets at fair value through other comprehensive income		300 492	717 662
Net (loss) / gain on foreign exchange operations	7	(961 973)	645 211
Other operational income	8	153 186	270
Operating income		**11 188 579**	**11 024 293**
Personnel expenses	9	(337 317)	(323 924)
Administrative and other operating expenses	10	(371 762)	(399 293)
Other expense	12	(1 729 925)	-
Profit before tax		**8 749 575**	**10 301 076**
Income tax expense	13	(1 600 790)	(1 906 808)
Net profit		**7 148 785**	**8 394 268**
Other comprehensive income / (loss) that may be reclassified subsequently to profit or loss			
Movement in investment revaluation reserve for financial assets at fair value through other comprehensive income		(2 194 880)	244 517
Movement in credit risk of financial assets at fair value through other comprehensive income		(120 670)	-
Net gain on investments at fair value through other comprehensive income reclassified to profit or loss		(300 492)	(717 662)
Deferred income tax		523 209	94 629
Other comprehensive (loss) that may be reclassified subsequently to profit or loss		**(2 092 833)**	**(378 516)**
Total comprehensive income		**5 055 952**	**8 015 752**

Chairman of the Management Board
Khavin Alexey Sergeevich

August 28, 2018
Moscow

Chief Accounting Officer
Gorina Marianna Petrovna

August 28, 2018
Moscow

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

Notes 1-25 form an integral part of these interim condensed financial statements.

Central Counterparty National Clearing Center

Interim Condensed Statement of Financial Position (unaudited)
(in thousands of Russian rubles)

	Notes	June 30, 2018 (unaudited)	January 1, 2018 (with IFRS 9 effect) (unaudited)	December 31, 2017
ASSETS				
Cash and cash equivalents	14	282 419 306	306 494 606	306 499 826
Mandatory cash balances with Central Bank of Russian Federation		-	6 010 627	6 010 627
Financial assets at fair value through profit or loss	15	3 334 114	7 926 096	413 618
Due from banks and other financial institutions	16	100 236 044	51 406 046	51 429 690
Financial assets of central counterparty	17	2 482 484 684	2 430 083 747	2 430 083 747
Financial assets at fair value though other comprehensive income	18	217 630 968	189 387 026	-
Financial assets available-for-sale		-	-	196 897 672
Property and equipment and intangible assets	19	183 049	181 712	181 712
Deferred tax assets	13	-	175 796	168 519
Current income tax assets		1 421 063	199 765	199 765
Other assets	20	1 097 066	2 668 469	2 677 821
Total assets		**3 088 806 294**	**2 994 533 890**	**2 994 562 997**
LIABILITIES				
Customer accounts	21	546 902 433	507 206 788	507 206 788
Derivatives recognized at fair value through profit and loss		135 731	6 278	6 278
Financial liabilities of central counterparty	17	2 482 484 684	2 430 083 747	2 430 083 747
Deferred tax liabilities	13	221 270	-	-
Other liabilities	22	1 254 857	702 061	702 061
Total liabilities		**3 030 998 975**	**2 937 998 874**	**2 937 998 874**
EQUITY				
Share capital	23	16 670 000	16 670 000	16 670 000
Paid-in capital	23	347 144	347 144	347 144
Investments revaluation reserve		(543 071)	1 549 763	1 291 659
Payments based on the shares of the parent company		45 457	29 178	29 178
Retained earnings		41 287 789	37 938 931	38 226 142
Total equity		57 807 319	**56 535 016**	**56 564 123**
Total liabilities and equity		**3 088 806 294**	**2 994 533 890**	**2 994 562 997**

Notes 1-25 form an integral part of these interim condensed financial statements.

Central Counterparty National Clearing Center

Interim Condensed Statement of Cash Flows (unaudited)
(in thousands of Russian rubles)

	Notes	Six-month period ended June 30, 2018 (unaudited)	Six-month period ended June 30, 2017 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before tax		8 749 575	10 301 076
Adjustments for:			
Gain on disposal of financial assets at fair value through other comprehensive income		(300 492)	-
Gain from disposal of financial assets available-for-sale		-	(717 662)
Revaluation of derivatives		534 520	970 742
Change in interest accruals, net		(5 906)	(1 015 005)
Net change in deferred commission income	22	(230 105)	(105 648)
Unrealized gain on foreign exchange operations		(56 453)	(162 818)
Other accruals		(136 646)	(36 252)
Depreciation and amortization charge	10	22 862	17 125
Payments based on shares of the parent company	9	16 279	7 773
Change in allowance for expected credit losses	11	(137 275)	-
Other provisions	12	873 040	-
Cash flows from operating activities before changes in operating assets and liabilities		**9 329 399**	**9 259 331**
Changes in operating assets and liabilities:			
Mandatory cash balances with Central Bank of Russian Federation		6 010 627	(414 179)
Financial assets at fair value though profit or loss		4 186 915	-
Due from banks and other financial institutions		(45 299 207)	3 387 993
Financial assets of central counterparty		(20 260 498)	(173 396 447)
Other assets		1 657 084	303 388
Customer accounts		(1 598 233)	65 123 771
Financial liabilities of central counterparty		20 260 498	173 396 447
Other liabilities		11 480	4 551
Net cash flows (used in) / from operating activities before income tax		(25 701 935)	77 664 855
Income tax paid		(1 901 813)	(5 311 489)
Cash flows (used in) / from operating activities		**(27 603 748)**	**72 353 366**
CASH FLOWS USED IN INVESTING ACTIVITIES:			
Purchase of financial assets at fair value through other comprehensive income		(82 250 207)	-
Purchase of financial assets available-for-sale		-	(112 463 336)
Proceeds from sale of financial assets at fair value through other comprehensive income		59 240 362	-
Proceeds from sale of financial assets available-for-sale		-	142 196 314
Purchase of property and equipment and intangible assets		(24 198)	(6 108)
Net cash flows (used in) / from investing activities		**(23 034 043)**	**29 726 870**

Notes 1-25 form an integral part of these interim condensed financial statements.

Interim Condensed Statement of Cash Flows (unaudited) (continued)
(in thousands of Russian rubles)

	Notes	Six-month period ended June 30, 2018 (unaudited)	Six-month period ended June 30, 2017 (unaudited)
Dividends paid		(3 799 927)	(2 099 920)
Cash flows used in financing activities		**(3 799 927)**	**(2 099 920)**
Effect of changes in foreign exchange rates on cash and cash equivalents		30 362 418	12 202 613
Net (decrease) / increase in cash and cash equivalents		**(24 075 300)**	**112 182 929**
Cash and cash equivalents, beginning of the period	**14**	**306 494 606**	**375 102 062**
Cash and cash equivalents, end of the period	**14**	**282 419 306**	**487 284 991**

Interest received and paid for the six months ended June 30, 2018, amounted to RUB 8 091 661 thousand and RUB 288 691 thousand, respectively.

Interest received and paid for the six months ended June 30, 2017 amounted to RUB 6 457 177 thousand and RUB 995 239 thousand, respectively.

Central Counterparty National Clearing Center

Interim Condensed Statement of Changes in Equity (unaudited)
(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		**-**	**-**	**(378 516)**	**-**	**8 394 268**	**8 015 752**
Transactions with owners							
Dividends declared		-	-	-	-	(2 099 920)	(2 099 920)
Payments based on the shares of the parent company	9	-	-	-	(20 438)	28 211	7 773
Total transactions with owners		**-**	**-**	**-**	**(20 438)**	**(2 071 709)**	**(2 092 147)**
June 30, 2017 (unaudited)		**16 670 000**	**347 144**	**564 055**	**24 247**	**45 856 479**	**63 461 925**
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 2)		-	-	258 104	-	(287 211)	(29 107)
January 1, 2018 (with IFRS 9 effect) (unaudited)	**-**	**16 670 000**	**347 144**	**1 549 763**	**29 178**	**37 938 931**	**56 535 016**
Comprehensive income for the period		**-**	**-**	**(2 092 834)**	**-**	**7 148 785**	**5 055 951**
Transactions with owners							
Dividends declared		-	-	-	-	(3 799 927)	(3 799 927)
Payments based on the shares of the parent company	9	-	-	-	16 279	-	16 279
Total transactions with owners		**-**	**-**	**-**	**16 279**	**(3 799 927)**	**(3 783 648)**
June 30, 2018 (unaudited)		**16 670 000**	**347 144**	**(543 071)**	**45 457**	**41 287 789**	**57 807 319**

Notes 1-25 form an integral part of these interim condensed financial statements.

1. Organization

Non-banking credit organization - Central Counterparty National Clearing Centre (NCC) is a non-banking credit organization, which was incorporated in the Russian Federation in 2006. NCC is regulated by the Central Bank of the Russian Federation ("Bank of Russia" or "CBR") 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 organization. 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 June 30, 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.

2. Basis of presentation

Significant accounting policies

Statement of compliance. These Interim Condensed Financial Statements of the NCC have been prepared in accordance with the International Financial Reporting Standard IAS 34 "Interim Financial Statements".

Basis of presentation. These Interim Condensed Financial Statements are presented in thousands of Russian rubles, unless otherwise indicated. These Interim Condensed Financial Statements have been prepared on the historical cost basis except for certain financial assets and liabilities that are measured at fair value.

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

The financial information does not include all the information and disclosures required in the annual financial statements. NCC omitted disclosures, which would substantially duplicate the information contained in its audited annual financial statements for 2017 prepared in accordance with IFRS, such as accounting policies and details of accounts, which have not changed significantly in amount or composition.

The interim condensed financial statements approval. Interim Condensed Financial Statements of NCC were approved for issue by the Management of NCC on August 28, 2018.

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

	June 30, 2018	**December 31, 2017**
USD	62,7565	57,6002
EUR	72,9921	68,8668

The CBR's rate fluctuated significantly from June 30, 2018 to the date of issue of these financial statements: the Russian ruble depreciated by about 7,7% against the US dollar and about 7,1% against Euro.

(in thousands of Russian rubles, unless otherwise indicated)

3. Significant accounting policies

The accounting policies adopted by NCC in the preparation of these Interim Condensed Financial Statements are consistent with those followed in the preparation of the NCC's Financial Statements for the year ended December 31, 2017, except the adoption of IFRS 9 "Financial Instruments" effective from January 1, 2018.

In the current period, NCC has adopted all of the new and revised Standards and Interpretations issued by the IASB and IFRIC of the IASB that are relevant to its operations and effective for reporting periods ending on June 30, 2018:

IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers (and the related Clarifications)*
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
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.

The effects of IFRS 9 "Financial Instruments" adoption. 1 January 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 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.

3. Significant accounting policies (continued)

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 directly in profit or loss.

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

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

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

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

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

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

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 of the first reporting period following the change in business model that results in reclassification NCC's financial assets. During the current financial year and previous accounting period there was no change in the business model under which NCC holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

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

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

No loss allowances for expected credit losses is recognised on equity investments, financial assets arising from 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).

3. Significant accounting policies (continued)

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

ECLs are a probability-weighted estimate of the present value of potential credit losses. ECLs are measured as the present value of the difference between the cash flows due to NCC under the contract and the cash flows that NCC expects to receive arising from the weighting of multiple future economic scenarios.

NCC measures ECLs on an individual basis or on a collective basis for portfolios of debtors that share similar value and economic risk characteristics.

NCC does not form any loss allowance on ECLs for CCP activities. The CCP is acting as an intermediary between the parties: i.e. as a seller for each buyer and as a buyer for each seller, so that replacing their contractual relations between each other with relevant contracts with a central counterparty.

CCP assets and liabilities are simultaneously reflected in NCC's statement of financial position due to the following:

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

The risks of non-fulfilment or improper fulfilment of clearing participants obligations on the CCP deals are managed using the following risk-management system measures, organised according to the federal law as 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.

3. Significant accounting policies (continued)

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

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

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

To determine PD NCC uses:

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

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

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

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

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

If these do not clearly indicate a substantial modification, then quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is greater than 5% 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 fair value: 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 under 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	-	7 512 479	7 926 097
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 deals)	Financial assets at AC (repo) / assets at FVTPL (currency deals)	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	(9 352)	-	2 668 469
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 deals)	Financial liabilities at AC (repo) / FVTPL (currency deals)	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	7 643	(366)	175 796
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	(289 163)	1 952	37 938 931

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.

4. Critical accounting judgements 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 3). NCC monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. NCC conducts assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change and so a prospective change to the classification of those assets.

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

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 25.

Share-based payments. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the instrument and volatility and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 9.

(in thousands of Russian rubles, unless otherwise indicated)

5. Interest income and expense

	Six-month period ended June 30, 2018	Six-month period ended June 30, 2017
Interest income on financial assets at fair value		
Interest income on financial assets at fair value through other comprehensive income	5 351 256	5 999 001
Interest income on financial assets at fair value through profit or loss	86 988	-
Total interest income on financial assets at fair value	**5 438 244**	**5 999 001**
Interest income on financial assets at amortized cost		
Interest income on due from banks and other financial institutions	1 902 587	723 159
Interest income on cash and cash equivalents	622 772	616 857
Total interest income on financial assets at amortized cost	**2 525 359**	**1 340 016**
Total interest income	**7 963 603**	**7 339 017**
Interest expense on financial liabilities at amortized cost		
Interest expense on term deposits	(78 335)	(711 594)
Interest expense on REPO deals and other borrowed funds	(69 027)	(13 244)
Interest expense on stress collateral	(7 365)	(137 236)
Total interest expense	**(154 727)**	**(862 074)**
Net interest income	**7 808 876**	**6 476 943**

6. Fee and commission income

	Six-month period ended June 30, 2018	Six-month period ended June 30, 2017
Clearing services for money market	1 983 296	1 701 145
Clearing services for foreign exchange market	844 291	795 942
Clearing services for securities market	896 924	668 787
Clearing services for derivatives market	30 138	13 618
Other commissions	115 896	8 937
Total fee and commission income	**3 870 545**	**3 188 429**

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

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

	Six-month period ended June 30, 2018	Six-month period ended June 30, 2017
Foreign exchange swaps	(1 021 082)	484 215
Net other foreign exchange gain	59 109	160 996
Total net (loss) / gain on foreign exchange operations	**(961 973)**	**645 211**

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

(in thousands of Russian rubles, unless otherwise indicated)

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)	137 275	-
Other income	15 911	270
Total other operating income	**153 186**	**270**

9. Personnel expenses

	Six-month period ended June 30, 2018	Six-month period ended June 30, 2017
Personnel expenses	262 132	255 586
Payroll taxes and charges	58 906	60 565
Payment based on the shares of the parent company	16 279	7 773
Total personnel expenses	**337 317**	**323 924**

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 3,5 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 as at January 1, 2017	**2 916 669**	**62,7**
Granted	1 350 000	109,4
Expired	(616 134)	63,2
Exercised	(800 534)	63,2
Outstanding as at June 30, 2017	**2 850 001**	**51,8**
Outstanding as at January 1, 2018	3 116 667	68,3
Granted	3 000 000	115,4
Outstanding as at June 30, 2018	**6 116 667**	**56,6**

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 June 30, 2018 was 1,5 year (June 30, 2017: 1,3 year). The weighted average fair value of rights granted during six months ended June 30, 2018 was RUB 17,87 per 1 right. Exercise prices for rights outstanding as at June 30, 2018 were RUB 46,9 – RUB 115,4 (June 30, 2017: RUB 46,9 – RUB 109,4).

(in thousands of Russian rubles, unless otherwise indicated)

10. Administrative and other operating expenses

	Six-month period ended June 30, 2018	Six-month period ended June 30, 2017
Professional services	135 145	36 938
Settlement services and bank fees	46 087	72 609
Maintenance of property and equipment and intangible assets	45 199	49 639
Lease of property and equipment	30 751	31 640
Information and technological services	27 106	130 032
Taxes, other than income tax	24 777	39 737
Depreciation and amortization charge	22 862	17 125
Depository services	21 644	13 167
Communications services	3 421	3 069
Other	14 770	5 337
Total administrative and other operating expenses	**371 762**	**399 293**

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

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*		*20*	
December 31, 2016	**-**	**-**	**-**	**22 907**	**22 907**
Net charge for the period	-	-	-	171	171
June 30, 2017	**-**	**-**	**-**	**23 078**	**23 078**
December 31, 2017	**-**	**-**	**-**	**465**	**465**
Effect of IFRS 9 adoption (Note 2)	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	(1 105)	(18 176)	(120 670)	2 676	(137 275)
June 30, 2018	**4 115**	**5 468**	**202 566**	**12 494**	**224 643**

As at June 30, 2018 and January 1, 2018, cash and cash equivalents, due from credit institutions and financial assets at fair value through other comprehensive income are determined to have low credit risk, and therefore refer to Stage 1 assets, and the allowance for expected credit losses is measured as an allowance equal to 12-month expected credit losses. As at June 30, 2018, the allowance for expected credit losses of other financial assets consists of an allowance equal to 12-month expected credit losses in the amount of RUB 12 219 thousands for Stage 1 assets and an allowance equal to lifetime expected credit losses in the amount of RUB 275 thousands for Stage 3 assets (January 1, 2018: RUB 9 818 thousands for Stage 1 assets).

(in thousands of Russian rubles, unless otherwise indicated)

12. Other expense

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.

One of the professional participants 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 22). NCC will pursue all feasible legal solutions to resolve the matter. NCC implemented a set of measures to preclude the recurrence of such an operational event in the future.

In December 2015, a brokerage company had failed to perform its obligations on bargains related to NCC stock market that were performed due standard default management procedures explicitly stipulated by the Law "On clearing, clearing activities and the central counterparty" to cover the liabilities to bona fide participants of market and clearing. In September 2016, the broker was adjudged bankrupt. In October 2017, the Insolvency representative filed a lawsuit before the arbitration court on the invalidity of the fulfilled bargains. In March 2018, the court of first appearance allowed the claim. NCC filed the appeal against the decision. The CBR filed the similar appeal against the decision of the first instance court. In July 2018, the Court of Appeal dismissed appeal of NCC and the CBR, fulfilling plaintiffs' demands to return RUB 873,040 thousand to the insolvency estate. At the same time, the court recognized NCC's right to claim the abovementioned amount from the insolvency estate. NCC filed a cassation appeal against the Court of Appeal decision. NCC is ready to apply to the Supreme Court if necessary. NCC is confident in its legal positon. A conservative approach to the case was applied for these interim condensed financial statements. Therefore, the provision was accrued in the full amount of plaintiffs' demands.

13. Income tax expense

	Six-month period ended June 30, 2018	**Six-month period ended June 30, 2017**
Current income tax expense	680 515	303 067
Change in deferred tax	920 275	1 603 741
Total income tax expense	**1 600 790**	**1 906 808**

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:

	Six-month period ended June 30, 2018	**Six-month period ended June 30, 2017**
Profit before income tax	**8 749 575**	**10 301 076**
Tax at the statutory tax rate (20%)	**1 749 915**	2 060 215
Tax effect of income taxed at rates other than the 20% rate	**(159 502)**	(152 080)
Tax effect of permanent differences	**10 377**	(1 327)
Income tax expense	**1 600 790**	**1 906 808**

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)

	Six-month period ended June 30, 2018	Six-month period ended June 30, 2017
Beginning of the period – deferred tax assets (liabilities) (with IFRS 9 effect)	**175 796**	**1 723 921**
Change in deferred tax recognized in profit or loss	(920 275)	(1 603 679)
Change in deferred tax recognized in other comprehensive income	523 209	94 629
End of the period – deferred tax liabilities	**(221 270)**	**214 871**

14. Cash and cash equivalents

	June 30, 2018	January 1, 2018 (with IFRS 9 effect)	December 31, 2017
Correspondent accounts and overnight deposits with other credit organizations	271 818 303	280 497 468	280 497 468
Balances with the CBR	10 601 543	25 999 078	25 999 078
Cash on hand	1 291	2 745	2 745
Settlements on brokerage operations	2 284	535	535
Total cash and cash equivalents	**282 423 421**	**306 499 826**	**306 499 826**
Less allowance for impairment (Note 11)	(4 115)	(5 220)	-
Total cash and cash equivalents	**282 419 306**	**306 494 606**	**306 499 826**

The information on cash and cash equivalents as at June 30, 2017, and December 31, 2016, is provided below:

	June 30, 2017	December 31, 2016
Correspondent accounts and overnight deposits with other credit organizations	483 751 653	354 098 876
Balances with the CBR	3 477 604	21 001 754
Settlements on brokerage operations	50 621	168
Cash on hand	5 113	1 264
Total cash and cash equivalents	**487 284 991**	**375 102 062**

(in thousands of Russian rubles, unless otherwise indicated)

15. Financial assets at fair value through profit or loss

	June 30, 2018	January 1, 2018 (with IFRS 9 effect)	December 31, 2017
Corporate debt securities issued by Russian companies	3 316 074	7 508 944	-
Fair value of foreign currency derivatives	8 550	413 618	413 618
Shares issued by foreign companies	4 143	3 534	-
Bonds issued by Russian banks	5 347	-	-
Total financial assets at fair value though profit or loss	**3 334 114**	**7 926 096**	**413 618**

16. Due from banks and other financial institutions

	June 30, 2018	January 1, 2018 (with IFRS 9 effect)	December 31, 2017
Other time deposits with the CBR	48 768 960	-	-
Reverse repurchase agreements with financial institutions	47 804 190	46 935 227	46 935 227
Deposits in precious metals	3 209 757	-	-
Correspondent accounts in precious metals	356 069	3 314 977	3 314 977
Cash collateral received under swap deals	102 536	-	-
Term deposits	-	1 179 486	1 179 486
Total due from banks and other financial institutions	**100 241 512**	**51 429 690**	**51 429 690**
Less allowance for impairment (Note 11)	(5 468)	(23 644)	-
Total due from financial institutions	**100 236 044**	**51 406 046**	**51 429 690**

17. Financial assets and liabilities of central counterparty

	June 30, 2018	January 1, 2018 (with IFRS 9 effect)/ December 31, 2017
Repo transactions	2 479 188 152	2 428 116 927
Currency transactions	3 296 532	1 966 820
Total financial assets and liabilities of central counterparty	**2 482 484 684**	**2 430 083 747**

Assets of central counterparty are equal to liabilities of central counterparty.

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.

(in thousands of Russian rubles, unless otherwise indicated)

17. Financial assets and liabilities of central counterparty (continued)

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.

As at June 30, 2018 and December 31, 2017 there was no allowance created for financial assets of central counterparty and these financial assets were not overdue.

18. Financial assets at fair value through other comprehensive income

	June 30, 2018	January 1, 2018 (with IFRS 9 effect)	December 31, 2017
Bonds issued by Russian Federation	123 657 195	111 792 407	-
Bonds issued by Russian companies	54 959 323	52 879 320	-
Bonds issued by Russian commercial banks	20 146 141	21 674 739	-
Bonds issued by CBR	15 156 933	-	-
Bonds issued by international financial organizations	3 711 376	3 040 560	-
Financial assets at fair value though other comprehensive income	**217 630 968**	**189 387 026**	**-**

19. Property, equipment and intangible assets

	Furniture & equipment	Intangible assets	Trademark	Other intangible assets	Intangible assets in progress	Total
Cost						
December 31, 2016	**47 322**	**186 259**	**-**	**877**	**-**	**234 458**
Additions	565	766	1 830	-	4 623	7 784
June 30, 2017	**47 887**	**187 025**	**1 830**	877	**4 623**	**242 242**
December 31, 2017 / January 1, 2018	**73 499**	**223 024**	**1 830**	**877**	**45 800**	**345 030**
Additions	1 581	22 126	-	-	491	24 198
Transfer	-	1 011	-	-	(1 011)	-
June 30, 2018	**75 080**	**246 161**	**1 830**	**877**	**45 280**	**369 228**
Accumulated depreciation/amortisation						
December 31, 2016	**39 791**	**90 269**	**-**	**877**	**-**	**130 937**
Charge for the period	5 799	11 196	130	-	-	17 125
June 30, 2017	**45 590**	**101 465**	**130**	**877**	**-**	**148 062**
December 31, 2017/ January 1, 2018	**48 412**	**113 842**	**186**	**877**	**-**	**163 317**
Charge for the period	6 939	15 793	130	-	-	22 862
June 30, 2018	**55 351**	**129 635**	**316**	**877**	**-**	**186 179**
Net book value						
December 31, 2017	25 087	109 181	1 645	-	45 800	181 713
June 30, 2018	**19 729**	**116 526**	**1 514**	-	**45 280**	**183 049**

(in thousands of Russian rubles, unless otherwise indicated)

20. Other assets

	June 30, 2018	January 1, 2018 (with IFRS 9 effect)	December 31, 2017
Other financial assets			
Receivables on services rendered	129 579	98 075	98 075
Less allowance for impairment (Note 11)	(12 494)	(9 818)	(465)
Total other financial assets	**117 085**	**88 257**	**97 610**
Other non-financial assets			
Precious metals	944 739	2 539 036	2 539 036
Prepayments and other receivables	35 200	39 621	39 621
Taxes receivable other than income tax	42	1 555	1 554
Total other non-financial assets	**979 981**	**2 580 212**	**2 580 211**
Total other assets	**1 097 066**	**2 668 469**	**2 677 821**

21. Customer accounts

	June 30, 2018	January 1, 2018 (with IFRS 9 effect) / December 31, 2017
Accounts of clearing participants	522 468 996	473 230 884
Current accounts	13 699 550	21 331 760
Accounts in precious metals	4 510 422	5 854 012
Guarantee fund on securities, deposit and derivatives markets	3 905 019	4 265 159
Guarantee fund on foreign currency market and precious metals market	2 318 446	2 041 469
Margin account	-	384 647
Term deposits	-	98 857
Total customer accounts	**546 902 433**	**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 and other clearing 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)

22. Other liabilities

	June 30, 2018	January 1, 2018 (with IFRS 9 effect) / December 31, 2017
Other financial liabilities		
Payables to personnel	120 263	224 111
Payables for depositary and settlement operations	52 920	49 810
Payables on information and technological services	16 527	26 626
Payables for unused vacations	27 233	25 014
Payables to clearing participants with revoked licences	24 263	30 020
Other	27 534	21 839
Total other financial liabilities	**268 740**	**377 420**
Other non-financial liabilities		
Provision (Note 12)	873 040	-
Deferred commission income	91 408	321 513
Taxes payable, other than income tax	21 669	3 128
Total other liabilities	**1 254 857**	**702 061**

The movement of provision during the six-months period ended June 30, 2018 is provided below:

	Six-Month Period Ended June 30, 2018
Beginning of the period	-
Net charge for the period (Note 12)	1 729 925
Write-offs (Note 12)	(856 885)
End of the period	**873 040**

23. Share capital and paid-in capital

As at June 30, 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 June 30, 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.

(in thousands of Russian rubles, unless otherwise indicated)

24. Transactions with related parties

(a) Transactions with Parent company and Moscow Exchange Group.

As at June 30, 2018 and December 31, 2017 NCC is a wholly owned subsidiary of Moscow Exchange. Russian Federation exercised significant influence over Moscow Exchange.

The interim condensed statement of comprehensive income for the six months ended June 30, 2018 and June 30, 2017 includes the following amounts with related parties:

	Six-month period ended June 30, 2018		Six-month period ended June 30, 2017	
	Parent	**Other related parties**	**Parent**	**Other related parties**
Interest expense	-	(221)	(316 607)	(12 025)
Commission income (recoverable expenses)	2 796	(39 198)	3 746	(39 006)
Net loss on foreign exchange operations	-	(113 841)	-	(108 290)
Administrative and other operating expenses	(56 215)	(72 087)	(31 725)	(83 264)

The interim condensed statement of financial position as at June 30, 2018 and December 31, 2017 includes the following amounts with related parties:

	June 30, 2018		January 1, 2018 (with IFRS 9 effect) / December 31, 2017	
	Parent	**Other related parties**	**Parent**	**Other related parties**
Cash and cash equivalents	-	52 554 279	-	56 378 285
Property and equipment and intangible assets	1 515	-	-	-
Other assets	792	4	813	-
Derivatives recognized at fair value through profit and loss	-	(12 380)	-	-
Customer accounts	(10 751 942)	(47 664 113)	(4 835 624)	(71 827 588)
Other liabilities	(17 882)	(19 790)	(27 520)	(24 060)

(b) 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:

	June 30, 2018	January 1, 2018 (with IFRS 9 effect) / December 31, 2017
Other liabilities	3 045	19 303
Payments based on the shares of the parent company	45 457	29 178

(in thousands of Russian rubles, unless otherwise indicated)

24. 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:

	Six-month period ended June 30, 2018	**Six-month period ended June 30, 2017**
Short-term employee benefits, except for share-based payments	60 422	57 345
Share-based payment expense	16 279	7 106
Long-term employee benefits	9 453	11 088
Total remuneration of key management personnel	**86 154**	**75 539**

(c) 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 June 30, 2018 and December 31, 2017 and for the six months ended June 30, 2018 and June 30, 2017:

	June 30, 2018	**January 1, 2018 (with IFRS 9 effect) / December 31, 2017**
Assets		
Cash and cash equivalents	109 464 100	148 619 613
Financial assets at fair value through profit or loss	388 000	31 163
Due from banks and other financial institutions	52 048 900	1 179 486
Financial assets at fair value though other comprehensive income	182 957 000	140 183 679
Other assets	49 000	3 371
Liabilities		
Customer accounts	188 918 600	181 403 326
Other liabilities	5 800	573

	Six-month period ended June 30, 2018	**Six-month period ended June 30, 2017**
Fee and commission income	1 076 910	822 059
Interest income	5 286 182	4 802 045
Interest expense	(72 479)	(427 810)
Net gain on financial assets at fair value through other comprehensive income	258 883	-
Net gain on financial assets available-for-sale	-	614 324
Administrative and other operating expenses	(23 739)	(864)

As at June 30, 2018 operations with government-related entities within central counterparty financial assets and liabilities amounted to 10,7% of total balance. (December 31, 2017: 11,4%).

(in thousands of Russian rubles, unless otherwise indicated)

25. 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.

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

	June 30, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss	2 933 446	396 525	4 143	3 334 114
Central counterparty financial assets and liabilities (foreign currency operations)	3 296 532	-	-	3 296 532
Financial assets at fair value though other comprehensive income	187 589 550	30 041 418	-	217 630 968
Derivatives recognized at fair value though profit and loss (liabilities)	-	(135 731)	-	(135 731)

	January 1, 2018 (with IFRS 9 effect) / December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss	7 477 782	444 781	3 534	7 926 097
Central counterparty financial assets and liabilities (foreign currency operations)	1 966 820	-	-	1 966 820
Financial assets at fair value though other comprehensive income	173 945 165	15 441 861	-	189 387 026
Derivatives recognized at fair value though profit and loss (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 June 30, 2018 and January 1, 2018 refer to level 2 hierarchy of fair value.

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.

(in thousands of Russian rubles, unless otherwise indicated)

25. Fair value measurements (continued)

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

	Transfers between Level 1 and Level 2	
	Six-month period ended June 30, 2018	Six-month period ended June 30, 2017
From Level 1 to Level 2		
Financial assets at fair value through other comprehensive income	15 980 490	-
Financial assets available for sale	-	551 395
From Level 2 to Level 1		
Financial assets at fair value through other comprehensive income	2 916 696	-
Financial assets available for sale	-	2 762 364

The table below shows the analysis of derivatives at fair value through profit or loss as at June 30, 2018:

	Contractual amount		Assets – positive fair value	Liabilities – negative fair value
	Receivables	Payables		
Currency swaps	87 603 383	(87 730 564)	8 550	(135 731)

The table below shows the analysis of derivatives at fair value through profit or loss as at December 31, 2017:

	Contractual amount		Assets – positive fair value	Liabilities – negative fair value
	Receivables	Payables		
Currency swaps	26 308 464	(25 901 124)	413 618	(6 278)

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