

# **National Settlement Depository**

Financial statements for the year  
ended 31 December 2018,  
and independent auditor's opinion

# National Settlement Depository

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Supervisory Board of National Settlement Depository

### Opinion

We have audited the financial statements of National Settlement Depository (hereinafter, the "Organization"), which comprise the statement of financial position as at 31 December 2018, and the statement of profit and loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the 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 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (hereinafter, "IFRSs").

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (hereinafter, "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* (hereinafter, the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other information

Management is responsible for the other information. The other information comprises the information included in the Annual report for 2018, but does not include the financial statements and our auditor's report thereon.

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

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

If, based on the review of the Annual report for 2018, we conclude that the other information is materially misstated, we are required to report that fact those charged with governance.

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

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

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

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the annual 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 based on these annual financial statements.

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

- Identify and assess the risks of material misstatement of the annual 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 annual 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 the auditors' 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 annual financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

### **Report on Procedures Performed in Accordance with 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 (hereinafter, the "obligatory ratios"), as well as for compliance of the Organization's internal control and risk management systems with the Bank of Russia (hereinafter, the "CBRF") requirements.

In accordance with Article 42 of 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 annual financial statements for 2018 we performed procedures with respect to the Organization's compliance with the obligatory ratios as at 1 January 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 1 January 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 annual financial statements of the Organization present fairly, in all material respects, the financial position of the Organization as at 31 December 2018, its financial performance and its cash flows for 2018 in accordance with IFRS;

2. With respect to compliance of the Organization's internal control and risk management systems with the CBRF requirements:
  - (a) In accordance with the requirements and recommendations of the CBRF, as at 31 December 2018 the Organization's internal audit department was functionally subordinated and accountable to the Organization's Supervisory Board, and the Organization's risk management department was not subordinated or accountable to the departments undertaking the respective risks, heads of the Organization's internal audit and risk management departments meet the qualification requirements set by the CBRF;
  - (b) As at 31 December 2018, the Organization's effective internal policies governing the identification and management of significant risks, including credit, operational, market, liquidity risks, and the performance of stress-testing were approved by the Organization's competent management bodies in accordance with the CBRF requirements and recommendations;
  - (c) As at 31 December 2018, the Organization had a reporting system with regard to the Organization's significant credit, operational, market, liquidity 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 and liquidity risks were in compliance with the Organization'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 31 December 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 the effectiveness and consistency of application of the Organization's risk management policies, during 2018 the Organization's Supervisory Board and its executive bodies have regularly discussed reports prepared by the risk management and internal audit departments and have considered the 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

12 April 2013



The Entity: National Settlement Depository

Certificate of state registration № 3294, issued by the Bank of Russia on 27.06.1996

Primary state registration number: 1027739132563

Certificate of registration in Unified State Register: № 77 007811464 of 30.08.2002 issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Address: 105066, Moscow, Spartakovskaya str., 12

Audit firm: AO "Deloitte & Touche CIS"

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

Primary state registration number: 1027700425444

Certificate of registration in 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.

# National Settlement Depository


## Statement of Profit and Loss for the Year Ended 31 December 2018 (in thousands of Russian Rubles)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Fee and commission income	6	5 290 607	4 659 943
Interest and other finance income	7	1 702 891	1 413 025
Net gain from operations with derivatives at fair value through profit or loss	8	177 192	655 894
Net gain on financial assets at fair value through other comprehensive income		21 164	-
Net gain from foreign exchange transactions		5 400	8 869
Other income	9	42 863	42 506
<b>Operating income</b>		<b>7 240 117</b>	<b>6 780 237</b>
Personnel expenses	10	(1 673 249)	(1 589 397)
Administrative and other operating expenses	11	(1 407 526)	(1 279 983)
Commission expenses	12	(684 741)	(653 488)
<b>Profit before tax</b>		<b>3 474 601</b>	<b>3 257 369</b>
Income tax expense	14	(660 047)	(623 019)
<b>Net profit</b>		<b>2 814 554</b>	<b>2 634 350</b>



**Chairman of the Executive Board  
E.V. Astanin**

12 April 2019  
Moscow



**Chief Accountant  
I.E. Veremeenko**

12 April 2019  
Moscow

The notes 1–30 form an integral part of these financial statements.

# National Settlement Depository

## Statement of Comprehensive Income for the Year Ended 31 December 2018 (in thousands of Russian Rubles)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
<b>Net profit</b>		<b>2 814 554</b>	<b>2 634 350</b>
<b>Other comprehensive income/(loss) that may be reclassified subsequently to profit or loss</b>			
Movement in investment revaluation reserve for financial assets at fair value through other comprehensive income		(72 474)	-
Movement in the credit risk of financial assets at fair value through other comprehensive income	13	(8 792)	-
Net gain on investments at fair value through other comprehensive income reclassified to profit or loss		(21 164)	-
Income tax relating to items that may be reclassified		20 487	-
<b>Other comprehensive loss that may be reclassified subsequently to profit or loss</b>		<b>(81 943)</b>	<b>-</b>
<b>Total comprehensive income</b>		<b>2 732 611</b>	<b>2 634 350</b>

The notes 1–30 form an integral part of these financial statements.



# National Settlement Depository

## Statement of Financial Position at 31 December 2018

(in thousands of Russian Rubles)

	Notes	31 December 2018	31 December 2017
<b>ASSETS</b>			
Cash and cash equivalents	15	103 215 579	108 570 956
Financial assets at fair value through profit or loss	18	40 771	16 723 408
Due from banks	17	8 304 572	6 154 102
Financial assets at fair value through other comprehensive income	16	12 106 377	-
Property and equipment	19	2 594 724	2 674 856
Intangible assets	19	2 267 479	2 162 998
Current tax prepayments		-	45 164
Deferred tax assets	14	103 883	59 252
Other assets	20	753 596	626 283
<b>Total assets</b>		<b>129 386 981</b>	<b>137 017 019</b>
<b>LIABILITIES</b>			
Balances of market participants	21	92 511 492	122 243 283
Distributions payable to holders of securities	22	24 675 971	2 507 843
Current tax payables		29 660	-
Other liabilities	23	877 549	1 040 013
<b>Total liabilities</b>		<b>118 094 672</b>	<b>125 791 139</b>
<b>EQUITY</b>			
Share capital	24	1 193 982	1 193 982
Share premium	24	1 957 050	1 957 050
Investments revaluation reserve		(27 846)	-
Payments based on the shares of the parent company		24 506	981
Retained earnings		8 144 617	8 073 867
<b>Total equity</b>		<b>11 292 309</b>	<b>11 225 880</b>
<b>Total liabilities and equity</b>		<b>129 386 981</b>	<b>137 017 019</b>

The notes 1–30 form an integral part of these financial statements.

# National Settlement Depository

## Statement of Cash Flows for the Year Ended 31 December 2018 (in thousands of Russian Rubles)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
<b>CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES:</b>			
Profit before tax		3 474 601	3 257 369
Adjustments for:			
Depreciation of property and equipment and amortisation of intangible assets	11, 19	695 657	576 958
Net change in fair value of financial assets and liabilities at fair value through profit or loss		(578)	9 025
Net change of other accrued income/expense		(33 365)	191 192
Net change in payments based on the shares of the parent company	10	23 525	981
Net change in interest accruals		91 822	(83 624)
Unrealized losses on foreign exchange operations		17 308	4 814
Net loss on disposal of property and equipment and intangible assets	11	13 070	1 300
Change in allowance for expected credit losses	13	(3 411)	-
Revaluation of derivatives		(27 261)	-
Gain on disposal of financial assets at fair value through other comprehensive income		(21 164)	-
<b>Changes in operating assets and liabilities:</b>			
(Increase)/decrease in operating assets:			
Financial assets at fair value through profit or loss		-	(5 528 651)
Due from banks		(954 890)	(1 797 621)
Other assets		(184 809)	(3 792)
Increase/(decrease) in operating liabilities:			
Balances of market participants		(42 637 653)	16 952 466
Distributions payable to holders of securities		21 087 875	(22 549)
Other liabilities		(133 895)	19 183
Cash flows (used in)/from operating activities before taxation		(18 593 168)	13 577 051
Income tax paid		(609 321)	(670 990)
<b>Cash flows (used in)/from operating activities</b>		<b>(19 202 489)</b>	<b>12 906 061</b>

The notes 1–30 form an integral part of these financial statements.

# National Settlement Depository

## Statement of Cash Flows for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
<b>CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES:</b>			
Proceeds from disposal and redemption of financial assets at fair value through other comprehensive income		65 606 871	-
Purchase of financial assets at fair value through other comprehensive income		(61 154 136)	-
Purchase of intangible assets		(592 622)	(696 768)
Purchase of property and equipment		(114 107)	(179 747)
Proceeds from disposal of property and equipment and intangible assets		1 358	-
<b>Cash flows from/(used in) investing activities</b>		<b>3 747 364</b>	<b>(876 515)</b>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES:</b>			
Dividends paid to the shareholders	25	(2 689 523)	(2 106 357)
<b>Cash flows used in financing activities</b>	<b>25</b>	<b>(2 689 523)</b>	<b>(2 106 357)</b>
Effect of changes in foreign exchange rates on cash and cash equivalents		12 789 318	682 827
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(5 355 330)</b>	<b>10 606 016</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>15</b>	<b>108 570 956</b>	<b>97 964 940</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>15</b>	<b>103 215 626</b>	<b>108 570 956</b>

Interest received by NSD during the year ended 31 December 2018 amounted to RUB 1 810 588 thousand (31 December 2017: RUB 1 344 177 thousand).

# National Settlement Depository

## Statement of Changes in Equity for the Year Ended 31 December 2018 (in thousands of Russian Rubles)

	Share capital	Share premium	Payments based on the shares of the parent company	Investments revaluation reserve	Retained earnings	Total equity
<b>31 December 2016</b>	<b>1 193 982</b>	<b>1 957 050</b>	<b>3 531</b>	<b>-</b>	<b>7 542 345</b>	<b>10 696 908</b>
<b>Total comprehensive income for the period</b>	-	-	-	-	<b>2 634 350</b>	<b>2 634 350</b>
Dividends declared (Note 25)	-	-	-	-	(2 106 359)	(2 106 359)
Payments based on the shares of the parent company (Note 10)	-	-	(2 550)	-	3 531	981
<b>31 December 2017</b>	<b>1 193 982</b>	<b>1 957 050</b>	<b>981</b>	<b>-</b>	<b>8 073 867</b>	<b>11 225 880</b>
Effect of adoption of IFRS 9 (Note 3)	-	-	-	54 097	(54 283)	(186)
<b>1 January 2018 (with IFRS 9 effect)</b>	<b>1 193 982</b>	<b>1 957 050</b>	<b>981</b>	<b>54 097</b>	<b>8 019 584</b>	<b>11 225 694</b>
Net profit	-	-	-	-	2 814 554	2 814 554
Other comprehensive loss	-	-	-	(81 943)	-	(81 943)
<b>Total comprehensive income for the period</b>	-	-	-	<b>(81 943)</b>	<b>2 814 554</b>	<b>2 732 611</b>
Dividends declared (Note 25)	-	-	-	-	(2 689 521)	(2 689 521)
Payments based on the shares of the parent company (Note 10)	-	-	23 525	-	-	23 525
<b>31 December 2018</b>	<b>1 193 982</b>	<b>1 957 050</b>	<b>24 506</b>	<b>(27 846)</b>	<b>8 144 617</b>	<b>11 292 309</b>

The notes 1–30 form an integral part of these financial statements.

# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018

(in thousands of Russian Rubles)

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### 1. Organization

National Settlement Depository (hereinafter –“NSD”) is the central depository of the Russian Federation, a part of the Moscow Exchange Group. NSD is Russia's national numbering agency and the substitute numbering agency for the Commonwealth of Independent States (hereinafter –“CIS”), authorized to assign the international ISIN, CFI, as well as Local Operating Unit of a global system of legal entities identification, authorized to assign LEI codes to the legal entities.

In 2010, Non-Banking Credit Organization Closed Joint-Stock Company MOSCOW INTERBANK CURRENCY EXCHANGE SETTLEMENT HOUSE (hereinafter – “MICEX SH”) was reorganized by merger with Closed Joint-Stock Company National Depository Center (hereinafter – “NDC”). Simultaneously, the name MICEX SH was changed to National Settlement Depository. On 31 May 2016 at Annual General Meeting of Shareholders of NSD the company's new business name as Joint Stock Company National Settlement Depository was approved to meet revised standards of the Russian Civil Code. The new business name and respective changes to the company's Charter took effect from 26 July 2016, the day the registration authority recorded new version of the Charter.

NSD's activities are carried out based on the following licenses:

- license No.3294 issued by the Central Bank of the Russian Federation (hereinafter – “CBR”) on 4 August 2016 for banking operations;
- license of professional stock market participant No.045-12042-000100 issued by the Russian Federal Financial Markets Service (hereinafter – “FFMS”) on 19 February 2009 for depository activities;
- license No.045-00004-000010 issued by FFMS on 20 December 2012 for clearing activities;
- license LSZ No. 0009523, Registration No. 13169 H on 27 September 2013, to provide data encryption services, issued by the Centre for Licensing, Certification and Protection of State Secrets of the Federal Security Service (FSB) of Russia;
- license No.045-01 issued by CBR on 28 December 2016 for repository activities.

NSD functions as an operator of systemically and the nationally important payment system based on the certificate issued by the Bank of Russia on 24 November 2016.

NSD registered address is: 12 Spartakovskaya str., Moscow, 105066, the Russian Federation.

NSD is a subsidiary of Public Joint-Stock Company Moscow Exchange MICEX-RTS (hereinafter – “Moscow Exchange”). As at 31 December 2018 and 31 December 2017, the share of ownership comprised 99,997%.

NSD has no affiliates or representative offices within the Russian Federation or abroad. NSD is located in the Russian Federation.

As at 31 December 2018, NSD had 526 employees (31 December 2017: 500 employees).

# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

### 2. Basis of preparation

**Statement of compliance.** These Financial Statements (hereinafter – “financial statements”) have been prepared in accordance with the International Financial Reporting Standards (“IFRS”).

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

NSD maintains its accounting records in accordance with Russian Accounting Standards (“RAS”). These Financial Statements have been prepared from the statutory-based accounting records and adjusted for the purpose of fair presentation in accordance with IFRS.

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

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

**The Financial Statements approval.** The Executive Board approved the financial statements on 12 April 2019.

### 3. Significant accounting policies

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

In the current period, NSD 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 beginning on 1 January 2018:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers (and the related Clarifications)
Amendments to IFRS 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 NSD’s accounting policies that have affected the amounts reported for the current or prior years.

#### ***The effects of the adoption of IFRS 9 “Financial Instruments”***

In the current year, NSD has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow NSD not to restate comparatives. 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. Additionally, NSD adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2018.

IFRS 9 introduced new requirements for:

- The classification and measurement of financial assets and financial liabilities,
- Impairment of financial assets, and
- General hedge accounting.

Details of these new requirements as well as their impact on NSD’s financial statements are described below.

# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

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### 3. Significant accounting policies (continued)

**Interest income and interest expense.** Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at fair value through profit or loss (FVTPL) are recognised in 'Interest and other finance income' 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 recognised in profit or loss at initial recognition.

The interest income 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 recognised 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.

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

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

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. NSD determines the business models on the basis that reflects how groups of financial assets are managed together to achieve a particular business objective. NSD'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.

# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

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### 3. Significant accounting policies (continued)

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

NSD considers all relevant information available when making the business model assessment. However, this assessment is performed not on the basis of scenarios that NSD does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. NSD 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 NSD'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, NSD 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. NSD 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.** NSD assesses the classification and measurement of a financial asset based on contractual cash flow characteristics of the asset and NSD's business model for managing the asset.

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

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

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

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

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

#### **Financial assets at FVTPL are:**

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

NSD 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.



# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

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### 3. Significant accounting policies (continued)

**Reclassifications.** If the business model under which NSD 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 NSD's financial assets. During the current financial year and previous accounting period there was no change in the business model under which NSD 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.** NSD recognises loss allowances for expected credit losses (ECLs) on the following financial instruments, not measured at FVTPL:

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

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

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

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

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

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

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

**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.

NSD 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 NSD that are past due for over 90 days; or
- the counterparty's license has been revoked.

**Significant increase in credit risk.** NSD 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 NSD will measure the loss allowance based on lifetime ECL.

# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

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### 3. Significant accounting policies (continued)

When assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, NSD 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, NSD 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 NSD'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, NSD 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 NSD uses:

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

NSD 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 NSD assesses whether this modification results in derecognition. In accordance with NSD'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 NSD 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%, NSD 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. NSD monitors credit risk of modified financial assets by evaluating qualitative and quantitative information.

# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

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### 3. Significant accounting policies (continued)

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, NSD 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, NSD calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then NSD 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.

NSD 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 NSD neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, NSD recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If NSD retains substantially all the risks and rewards of ownership of a transferred financial asset, NSD 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 NSD retains an option to repurchase part of a transferred asset), NSD 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 NSD has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when NSD 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. NSD may apply enforcement activities to financial assets written off. Recoveries resulting from NSD'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.

# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

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### 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 13). 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 NSD elected to designate as at FVTPL at the date of initial application. There were no equity instruments the changes in fair value of which NSD irrevocably elected to present in other comprehensive income.

Reclassification of carrying amount was due to the following:

- transfer of equity investments from AFS to FVTPL category in the amount of RUB 9 233 thousand;
- reclassification of debt instruments from FVTPL category to FVOCI category in the amount of RUB 16 723 408 thousand on the basis of the NSD's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

## National Settlement Depository

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

#### 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 1 January 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	Revaluation	New carrying amount under IFRS 9
Cash and cash equivalents	Loans and receivables	Financial assets at AC	108 570 956	(2)	-	-	108 570 954
Financial assets at fair value through profit or loss	Financial assets at FVTPL	Financial assets at FVTPL	16 723 408	-	(16 714 175)	2 458	11 691
Due from banks	Loans and receivables	Financial assets at AC	6 154 102	-	-	-	6 154 102
Financial assets at fair value through other comprehensive income	Available-for-sale	Financial assets at FVOCI	-	-	16 723 408	-	16 723 408
Other financial assets	Loans and receivables	Financial assets at AC	414 751	(2 688)	-	-	412 063
Available-for-sale investments	Available-for-sale	Financial assets at FVOCI	9 233	-	(9 233)	-	-
Balances of market participants	Financial liabilities at AC	Financial liabilities at AC	122 243 283	-	-	-	122 243 283
Distributions payable to holders of securities	Financial liabilities at AC	Financial liabilities at AC	2 507 843	-	-	-	2 507 843
Other financial liabilities	Financial liabilities at FVTPL (derivatives) / AC (other)	Financial liabilities at FVTPL (derivatives) / AC (other)	769 547	-	-	-	769 547
Deferred tax asset	n/a	n/a	59 252	538	-	(492)	59 298
Investments revaluation reserve	n/a	n/a	-	11 090	-	43 007	54 097
Retained earnings	n/a	n/a	8 073 867	(13 242)	-	(41 041)	8 019 584

# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

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### 3. Significant accounting policies (continued)

**Financial liabilities at FVTPL.** 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 NSD 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 NSD'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.

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

**Other financial liabilities.** Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method (for details of the effective interest method see the Interest income and interest expense section above).

**Derecognition of financial liabilities.** NSD derecognises financial liabilities when, and only when, NSD's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When NSD 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, NSD 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.

**Derivative financial instruments.** NSD enters into derivative financial instruments, some of which are held for trading while others are held to manage its exposure to foreign exchange rate risk.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain/loss is recognised in profit or loss immediately.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

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### 3. Significant accounting policies (continued)

#### The adoption of new and revised standards except IFRS 9 Financial Instruments

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 recognised 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 recognised, 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 recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortised 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 accounting policies, presentation and methods of computation that have been followed in the current year as were applied in the preparation of NSD's financial statements for the year ended 31 December 2017

**Inflation accounting.** The Russian economy was considered hyperinflationary until 31 December 2002. As such, NSD applied IAS 29 *Financial Reporting in Hyperinflationary Economies*. The effect of applying IAS 29 is that non-monetary items, including components of equity, were restated to the measuring units current at 31 December 2002 by applying the relevant inflation indices to the historical cost, and that these restated values were used as a basis for accounting in subsequent periods.

**Cash and cash equivalents.** Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and deposit accounts with banks with maturity up to one business day. Amounts that are subject to restrictions on their availability are not included in cash and cash equivalents.

# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

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### 3. Significant accounting policies (continued)

**Property and equipment.** Property and equipment purchased after 1 January 2003 is recognised at initial cost less cumulative Amortisation and accumulated impairment losses (if any). Property and equipment purchased before 1 January 2003 is recognised at initial amount adjusted for inflation less cumulative Amortisation and accumulated impairment losses (if any).

**Useful lives of property and equipment.** Depreciation is accrued to write down the cost of property and equipment less residual value on a straight-line basis over their useful lives:

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Buildings and structures	2%
Furniture and equipment	20–38%
Motor vehicles	14–32%

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Freehold land is not depreciated.

Estimated useful lives, carrying amount and depreciation period are reviewed at the end of each reporting period with the effect of any changes in estimate being accounted for on a prospective basis.

Depreciation of assets under construction commences from the date the assets become available for service.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

**Intangible assets.** Intangible assets are carried at acquisition cost less any accumulated Amortisation and any accumulated impairment losses. Amortisation is charged on a straight-line basis throughout the useful life of the intangible assets at the annual rates:

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Licenses	20%
Trademarks	25%
Computer software	10–50%

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Estimated useful lives and amortisation period are reviewed at the end of each reporting period with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

**Internally developed intangible assets.** Development costs that are directly associated with the production of identifiable and unique software products controlled by NSD are capitalized and an internally generated intangible asset is recognised only if it is probable that it will generate economic benefits exceeding costs beyond one year and the development costs can be measured reliably. An internally generated intangible asset is recognised only if NSD has the technical feasibility, resources and intention to complete the development and to use the product. Direct costs include software development employee costs and an appropriate portion of relevant overheads. Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates.

**Derecognition of intangible assets.** An intangible asset is derecognised 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, and are recognised in profit or loss when the asset is derecognised.



# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

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### 3. Significant accounting policies (continued)

**Impairment of tangible and intangible assets.** At the end of each reporting period, NSD reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, NSD estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows is discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

**Taxation.** Income tax expense comprises current and deferred tax.

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

**Deferred income tax.** Deferred income taxes are provided for all temporary differences arising between the carrying amounts of assets and liabilities recognised in financial accounting and their tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences provided that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Tax assets and liabilities are not recognised if temporary differences arise from goodwill or from the initial recognition of an asset or liability in a transaction (except for business combinations) and affect neither taxable nor accounting profit.

**Operating taxes.** In the Russian Federation where NSD performs its activity, there are other requirements to accrue and pay taxes other than income tax applicable to NSD's activity. Such taxes are recognised as part of administrative and other operating expense in the Statement of Comprehensive Income.

**Provisions.** Provisions are recognised when NSD has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

**Contingencies.** Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the Statement of Financial Position but disclosed when an inflow of economic benefits is probable.

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

# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

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### 3. Significant accounting policies (continued)

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity within Share-based payments 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 the Moscow Exchange Group'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, and is recognised in employee benefits expense (Note 10).

**Depository activities.** NSD provides depository services to its customers, which include transactions with securities on their depository accounts. Assets accepted and liabilities incurred under the depository activities are not included in NSD's Financial Statements. NSD accepts the operational risk on these activities, but NSD's customers bear the credit and market risks associated with such operations. Revenue for provision of depository services is recognised as services are provided.

**Foreign currencies.** Monetary assets and liabilities denominated in foreign currencies are translated at the Russian ruble exchange rate as at the reporting date. Transactions in currencies other than functional currency are recorded at the exchange rate ruling at the date of the transaction. Gains or losses from such transactions are included into gains arising from foreign currencies.

#### New and revised IFRSs in issue but not yet effective

At the date of authorisation of these financial statements, NSD has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 16	<i>Leases</i>
IFRS 17	<i>Insurance Contracts</i>
Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
Amendments to IAS 28	<i>Long-term interests in Associates and Joint Ventures</i>
Annual Improvements to IFRS Standards 2015-2017 Cycle	<i>Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs</i>
Amendments to IAS 19 Employee Benefits	<i>Plan Amendment Curtailment or Settlement</i>
IFRS 10 Consolidated Financial Statements and IAS 28 (amendments)	<i>Sale or Contribution of Assets between an Investor and its Associate or joint Venture</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>
Amendments to IFRS 3	<i>Definition of Business</i>
Amendments to IAS 1 and IAS 8	<i>Definition to Material</i>

The management do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of NSD in future periods, except as noted below:

#### 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 1 January 2019. The date of initial application of IFRS 16 for NSD will be 1 January 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.** NSD 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 1 January 2019.

# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

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### 3. Significant accounting policies (continued)

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.

NSD 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 1 January 2019 (whether it is a lessor or a lessee in the lease contract).

**Impact on Lessee Accounting. Operating leases.** IFRS 16 will change how NSD 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), NSD 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 profit or loss;
- (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), NSD will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

As at 31 December 2018, NSD has non-cancellable operating lease commitments of RUB 5 461 thousand. 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 NSD will recognise a right-of-use asset of RUB 56 600 thousand 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 10 310 thousand, to increase depreciation by RUB 5 640 thousand and to increase interest expense by RUB 4 670 thousand.

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.

# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

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### 3. Significant accounting policies (continued)

The General Model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows 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 1 January 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 of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application. The management of NSD do not anticipate that the application of the Standard in the future will have an impact on NSD's financial statements as NSD 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 1 January 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 NSD do not anticipate that the application of the amendments in the future will have an impact on NSD'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 required 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 1 January 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 NSD do not anticipate that the application of the amendments in the future will have an impact on NSD's financial statements.

#### **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.

# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

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### 3. Significant accounting policies (continued)

**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 1 January 2019 and generally require prospective application. Earlier application is permitted. The management of NSD do not anticipate that the application of the amendments in the future will have an impact on NSD'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 determine current service cost and 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 remeasure under 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 prospectively. 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 1 January 2019, but they can be applied earlier if an entity elects to do so.

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

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

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The management of NSD do not anticipate that the application of the amendments in the future will have an impact on NSD's financial statements.

**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:
  1. 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.
  2. if no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

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### 3. Significant accounting policies (continued)

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

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

**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 after 1 January 2020, with earlier application permitted. The management of NSD do not anticipate that the application of the amendments in the future will have an impact on NSD's financial statements.

### 4. Critical accounting judgments and key sources of estimation uncertainty

In the process of applying NSD's accounting policies, management is required to make judgments, assumptions and estimates about carrying amounts of assets and liabilities that are not readily apparent from other sources. Estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant under certain circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the change affects only the respective period, and in future periods if the change affects both current and future periods.

#### Key sources of critical accounting judgments

**Business model assessment.** Classification and measurement of financial assets depends on the results of the SPPI and the business model test. NSD 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). NSD 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. NSD 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.

# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

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

**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 NSD takes into account the information listed in Note 3.

**Useful lives of fixed and intangible assets.** NSD annually reviews the expected useful life of fixed and intangible assets. When determining the useful life of an asset, the following factors are taken into account: expected use of the asset, normal life cycle, technical obsolescence, etc.

Based on the analysis of actual useful lives of intangible assets as at 1 January 2018 NSD adjusted the estimates in relation to remaining useful lives of intangible assets. Changes of useful lives were applied to certain types of software. Should NSD not apply these amendments, amortisation of intangible assets for the year ended 31 December 2018 would be RUB 9 945 thousand lower. Depreciation of intangible assets is disclosed in Note 19.

**Deferred income tax assets recognition.** The recognised deferred tax assets represent amount of income tax, which may be recovered through future income tax expenses and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on management expectations that are believed to be reasonable under the circumstances (refer to Note 14.)

#### Key sources of estimation uncertainty

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

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

**Impairment of fixed and intangible assets.** At the end of each reporting period, NSD assesses the recoverable amount of fixed and intangible assets to determine whether there is any indication of impairment. Regardless of whether there is any indication of impairment, an entity also reviews an intangible asset with an indefinite useful life or an intangible asset that is not yet available for use for impairment at least annually. If the calculated recoverable amount of an asset (CRAA) is lower than its carrying amount, the carrying amount of the asset (CAA) is reduced to its recoverable amount. An impairment loss is recognised in the statement of comprehensive income.

**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 29.

**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 10.

# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

### 5. Changes in presentation

The presentation of the financial statement has been changed in due to initial application of IFRS 9. NSD separately presents the Statement of Profit and Loss and the Statement of Comprehensive Income. In addition, the following items in the Statement of Profit and Loss compared to Statement of Comprehensive Income for the year ended 31 December 2017 were reclassified.

	As previously reported	Reclassification	As presented in these financial statements
Interest and other finance income	-	1 413 025	1 413 025
Interest income	344 029	(344 029)	-
Net gain on securities at fair value through profit or loss	1 068 996	(1 068 996)	-

The following items in the Statement of Cash Flows for year ended 31 December 2017 were reclassified.

	As previously reported	Reclassification	As presented in these financial statements
Net change in fair value of financial assets and liabilities at fair value through profit or loss	(74 599)	83 624	9 025
Net change in interest accruals	-	(83 624)	(83 624)

### 6. Fee and commission income

	Year ended 31 December 2018	Year ended 31 December 2017
Depository services	4 334 552	3 694 701
Collateral management services and clearing services	435 121	454 268
Settlement services	326 271	364 481
Information services	76 459	56 233
Sale of technical services	71 936	52 093
Repository services	46 268	38 167
<b>Total fee and commission income</b>	<b>5 290 607</b>	<b>4 659 943</b>



# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

### 7. Interest and other financial income

	Year ended 31 December 2018	Year ended 31 December 2017
<b>Income gain on financial assets at fair value through profit or loss</b>		
Interest income	-	1 030 569
Net gain on financial assets at fair value through profit or loss	578	38 427
<b>Total gain on financial assets at fair value through profit or loss</b>	<b>578</b>	<b>1 068 996</b>
<b>Interest income on financial assets other than at fair value through profit or loss</b>		
Interest income on financial assets at fair value through other comprehensive income	1 438 852	-
Interest on correspondent and current accounts with other banks	175 517	337 673
Interest on deposits with the CBR	87 944	6 356
<b>Total interest income on financial assets other than at fair value through profit or loss</b>	<b>1 702 313</b>	<b>344 029</b>
<b>Total interest and other financial income</b>	<b>1 702 891</b>	<b>1 413 025</b>

### 8. Net gains from operations with derivatives at fair value through profit or loss

In 2018 and 2017, NSD performed currency swap deals at the currency exchange market of Moscow Exchange Group and on the OTC market for the purpose of liquidity regulation in various currencies and diversification of the profit sources (Note 18).

### 9. Other income

	Year ended 31 December 2018	Year ended 31 December 2017
Income from lease	27 776	27 946
License fee	7 150	5 000
Movement in allowance for expected credit losses (Note 13)	3 411	-
Write-off of accounts payable	380	309
Other	4 146	9 251
<b>Total other income</b>	<b>42 863</b>	<b>42 506</b>

### 10. Personnel expenses

	Year ended 31 December 2018	Year ended 31 December 2017
Personnel expenses except payments based on the shares of the parent company	1 396 816	1 327 791
Payroll related taxes	252 908	260 625
Net change in payments based on the shares of the parent company	23 525	981
<b>Total personnel expenses</b>	<b>1 673 249</b>	<b>1 589 397</b>

## National Settlement Depository

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

#### 10. Personnel expenses (continued)

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 Moscow Exchange Group at the vesting date. The maximum contractual term of the contracts is three and a half years. The fair value of the rights is measured at the grant date using a binomial model taking into account the terms and conditions upon which the instruments were granted.

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

	Number	WAEP
<b>Outstanding at 1 January 2017</b>	<b>166 668</b>	<b>46,90</b>
Granted	3 000 000	120,39
Exercised	(70 334)	46,90
Redeemed	(96 334)	46,90
<b>Outstanding at 1 January 2018</b>	<b>3 000 000</b>	<b>120,39</b>
Forfeited	(400 000)	120,39
<b>Outstanding at 31 December 2018</b>	<b>2 600 000</b>	<b>120,39</b>

The weighted average remaining contractual life for the share options outstanding as at 31 December 2018 was 1,27 years (31 December 2017: 2,26 years). New equity rights were not granted during the year ended 31 December 2018. The weighted average fair value of equity rights granted during the year ended 31 December 2017 was RUB 120,39. Exercise prices for rights outstanding as at 31 December 2018 were RUB 120,39 (31 December 2017: RUB 120,39).

The following table lists the inputs to the models used for equity rights granted during the period:

Assumption	Year ended 31 December 2018	Year ended 31 December 2017
Expected volatility	-	22,7%
Risk-free interest rate	-	6,9%
Weighted average share price, RUB	-	120,39
Dividend yield	-	5,3%

# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

### 11. Administrative and other operating expenses

The volatility assumption is based on implied volatilities of quoted shares of similar stock exchanges.

	Year ended 31 December 2018	Year ended 31 December 2017
<b>Administrative and other operating expenses</b>		
Amortisation of intangible assets (Note 19)	482 124	350 860
Maintenance of property and equipment and intangible assets	373 021	335 964
Depreciation of property and equipment (Note 19)	213 533	226 098
Taxes (other than income tax)	122 909	113 517
Communication and telecommunication	53 892	53 071
Professional services	34 120	67 251
Corporate events	23 902	21 617
Insurance	19 198	20 985
Business trip expenses	17 328	13 209
Advertising	14 793	12 876
Loss on disposal of property, equipment and intangible assets	13 070	1 300
Write-off of materials and low value equipment	11 700	33 096
Rent expenses	8 605	9 057
Security	6 809	6 837
Charity	3 928	3 946
Stationery	3 291	4 037
Charge of allowances for potential losses	-	1 328
Other	5 303	4 934
<b>Total administrative and other operating expenses</b>	<b>1 407 526</b>	<b>1 279 983</b>

Professional services comprise consulting, audit and legal services.

### 12. Commission expenses

	Year ended 31 December 2018	Year ended 31 December 2017
Depository service commissions	378 250	312 738
Negative interest rates expenses on bank cash accounts	152 146	208 513
Registrar services	92 275	68 797
Bank commissions	43 191	48 908
Other	18 879	14 532
<b>Total commission expenses</b>	<b>684 741</b>	<b>653 488</b>

## National Settlement Depository

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

#### 13. Movement in Allowance for Expected Credit Losses

The information on the movement in the allowance for expected credit losses of NSD for the six-month periods ended 31 December 2018 and 31 December 2017, is provided below.

	Cash and cash equivalents	Financial assets at fair value through other comprehensive income	Other financial assets	Total
<i>Note</i>	15		20	
<b>31 December 2016</b>	-	-	<b>7 119</b>	<b>7 119</b>
Net charge for the period (IAS 39)	-	-	1 328	1 328
Write-offs	-	-	(1 340)	(1 340)
<b>31 December 2017</b>	-	-	<b>7 107</b>	<b>7 107</b>
Effect of adoption of IFRS 9 (Note 3)	2	13 863	2 688	16 553
<b>1 January 2018 (with IFRS 9 effect)</b>	<b>2</b>	<b>13 863</b>	<b>9 795</b>	<b>23 660</b>
Net (reversal)/charge for the period	45	(8 792)	5 336	(3 411)
<b>31 December 2018</b>	<b>47</b>	<b>5 071</b>	<b>15 131</b>	<b>20 249</b>

Total net reversal of the allowance for expected credit losses of NSD for the year ended 31 December 2018 is included in other operating income within statement of profit or loss (Note 9). Net charge for the year ended 31 December 2017 is included in administrative and other operating expenses within statement of profit or loss (Note 11).

As at 31 December 2018 and 1 January 2018, the allowance for expected credit losses of financial assets at fair value through other comprehensive income is included in investments revaluation reserve. The movement of the allowance is reflected within statement of comprehensive income.

The allowance for expected credit losses of NSD 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. The composition of NSD's financial assets and correspondent allowances for expected credit losses by stages as at 31 December 2018, is provided below.

	Cash and cash equivalents	Financial assets at fair value through other comprehensive income	Other financial assets	Total
<i>Note</i>	15		20	
Stage 1 assets	103 215 626	12 106 377	537 372	<b>115 859 375</b>
Stage 2 assets	-	-	532	<b>532</b>
Stage 3 assets	-	-	8 141	<b>8 141</b>
<b>Total financial assets</b>	<b>103 215 626</b>	<b>12 106 377</b>	<b>546 045</b>	<b>115 868 048</b>
Allowance for Stage 1 assets	(47)	(5 071)	(6 982)	(12 100)
Allowance for Stage 2 assets	-	-	(8)	(8)
Allowance for Stage 3 assets	-	-	(8 141)	(8 141)
<b>Total allowance for expected credit losses</b>	<b>(47)</b>	<b>(5 071)</b>	<b>(15 131)</b>	<b>(20 249)</b>

## National Settlement Depository

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

#### 13. Movement in Allowance for Expected Credit Losses (continued)

The composition of NSD's financial assets and correspondent allowances for expected credit losses by stages as at 1 January 2018, is provided below.

	Cash and cash equivalents	Financial assets at fair value through other comprehensive income	Other financial assets	Total
<i>Note</i>	15		20	
Stage 1 assets	108 570 956	16 723 408	415 440	<b>125 709 804</b>
Stage 2 assets	-	-	639	<b>639</b>
Stage 3 assets	-	-	5 779	<b>5 779</b>
<b>Total financial assets</b>	<b>108 570 956</b>	<b>16 723 408</b>	<b>421 858</b>	<b>125 716 222</b>
Allowance for Stage 1 assets	(2)	(13 863)	(4 007)	(17 872)
Allowance for Stage 2 assets	-	-	(9)	(9)
Allowance for Stage 3 assets	-	-	(5 779)	(5 779)
<b>Total allowance for expected credit losses</b>	<b>(2)</b>	<b>(13 863)</b>	<b>(9 795)</b>	<b>(23 660)</b>

The tables below analyze information about the significant changes in the gross carrying amount of other financial assets during the period that contributed to changes in the loss allowance as well as the movement of the loss allowance during the 2018:

	Stage 1	Stage 2	Stage 3	Total
<b>Gross carrying amount at 1 January 2018</b>	<b>415 440</b>	<b>639</b>	<b>5 779</b>	<b>421 858</b>
New financial assets originated or purchased less financial assets that have been derecognised due to being redeemed or sold	124 187	-	-	124 187
Transfer to Stage 2	(2 255)	2 255	-	-
Transfer to Stage 3	-	(2 362)	2 362	-
<b>Gross carrying amount at 31 December 2018</b>	<b>537 372</b>	<b>532</b>	<b>8 141</b>	<b>546 045</b>
<b>Loss allowance at 31 December 2018</b>	<b>(6 982)</b>	<b>(8)</b>	<b>(8 141)</b>	<b>(15 131)</b>
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Loss allowance at 1 January 2018</b>	<b>4 007</b>	<b>9</b>	<b>5 779</b>	<b>9 795</b>
Net increase/(decrease) in credit risk	3 006	-	2 330	5 336
Transfer to Stage 2	(31)	31	-	-
Transfer to Stage 3	-	(32)	32	-
<b>Loss allowance at 31 December 2018</b>	<b>6 982</b>	<b>8</b>	<b>8 141</b>	<b>15 131</b>

# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

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### 14. Income tax

NSD calculates current income tax based on the tax accounts maintained and prepared in accordance with the tax regulations of the Russian Federation, which may differ from IFRS.

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

The tax rate used for the reconciliations between tax expense and accounting profit is the corporate tax rate of 20% payable by corporate entities in the Russian Federation on taxable profits under the tax law in that jurisdiction.

The analysis of the temporary differences as at 31 December 2018 and 2017 is presented below:

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Tax effect from deductible temporary differences</b>		
Cash and cash equivalents	9	-
Financial assets at fair value through other comprehensive income	22 132	-
Property and equipment and intangible assets	7 664	434
Other assets	3 243	1 663
Other liabilities	92 833	87 605
<b>Total tax effect from deductible temporary differences</b>	<b>125 881</b>	<b>89 702</b>
<b>Tax effect from taxable temporary differences</b>		
Financial assets at fair value through profit or loss	(764)	(7 869)
Property and equipment and intangible assets	(21 020)	(20 947)
Other assets	(214)	(1 634)
<b>Total tax effect from taxable temporary differences</b>	<b>(21 998)</b>	<b>(30 450)</b>
<b>Deferred tax assets</b>	<b>103 883</b>	<b>59 252</b>

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# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

### 14. Income tax (continued)

Reconciliation of income tax expense and accounting for the year ended 31 December 2018 and 31 December 2017 is presented below:

	Year ended 31 December 2018	Year ended 31 December 2017
<b>Profit before income tax</b>	<b>3 474 601</b>	<b>3 257 369</b>
Statutory tax rate	20%	20%
Tax at the statutory tax rate (20%)	694 920	651 474
Tax effect of income taxed at rates different from the statutory tax rate	(74 615)	(52 138)
Tax effect of non-taxable expenses	39 407	31 892
Deferred tax from previously unrecognised temporary differences of a prior period	374	(8 181)
Adjustments in respect of current income tax of previous years	(39)	(28)
<b>Income tax expense</b>	<b>660 047</b>	<b>623 019</b>
Current income tax expense	684 184	634 820
Adjustments in respect of current income tax of previous years	(39)	(28)
Deferred taxation movement due to origination and reversal of temporary differences	(24 098)	(11 773)
<b>Income tax expense</b>	<b>660 047</b>	<b>623 019</b>

Deferred tax assets are presented as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
<b>Beginning of the year</b>	<b>59 252</b>	<b>47 479</b>
Effect of adoption of IFRS 9 (Note 3)	46	-
<b>Beginning of the period (with IFRS 9 effect)</b>	<b>59 298</b>	<b>47 479</b>
Change in deferred income tax balances recognised in profit or loss	24 098	11 773
Change in deferred income tax balances recognised in other comprehensive income	20 487	-
<b>End of the year</b>	<b>103 883</b>	<b>59 252</b>

## National Settlement Depository

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

#### 15. Cash and cash equivalents

The information on cash and cash equivalents as at 31 December 2018 and 31 December 2017 is provided below:

	<b>31 December 2018</b>	<b>31 December 2017</b>
Balances with the CBR	3 178 121	37 262 096
Balances with banks:		
– Russian Federation	75 145 960	61 893 202
– Organization for Economic Cooperation and Development countries	24 837 340	9 408 542
– other countries	51 983	4 960
Cash on hand	2 222	2 156
<b>Total cash and cash equivalents</b>	<b>103 215 626</b>	<b>108 570 956</b>
Less allowance for impairment (Note 13)	(47)	-
<b>Total cash and cash equivalents</b>	<b>103 215 579</b>	<b>108 570 956</b>

As at 31 December 2018, NSD has balances with four counterparties (31 December 2017: four counterparties) each of which is greater than 10% of equity. The total aggregate amount of these balances is RUB 100 115 694 thousand or 97% of total cash and cash equivalents as at 31 December 2018 (31 December 2017: RUB 106 143 338 thousand or 98% of total cash and cash equivalents).

#### 16. Financial assets at fair value through other comprehensive income

	<b>31 December 2018</b>	<b>31 December 2017</b>
Bonds issued by the Russian Federation	12 106 377	-
<b>Total financial assets at fair value through other comprehensive income</b>	<b>12 106 377</b>	<b>-</b>

As at 31 December 2018 financial assets at fair value through other comprehensive income of RUB 10 981 413 thousand were included in the "Blocked by the CBR" section of NSD's securities account and could be used as a collateral for NSD's borrowings within the limit set by the CBR (see CBR Regulation No. 4801-U, "On the methods and criteria of of collateralized refinancing of credit organizations" dated May 22, 2018).



# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

### 17. Due from banks

	31 December 2018	31 December 2017
Account of clearing collective collateral (Guarantee Fund)	10 000	10 000
Other	8 294 572	6 144 102
<b>Total due from banks</b>	<b>8 304 572</b>	<b>6 154 102</b>

Other funds include blocked correspondent account of NSD in Euroclear Bank S.A./N.V., Brussels, which relate to foreign securities (coupon and principal repayments) owned by a US/EU sanctioned client bank and blocked in a correspondent account of NSD with Euroclear Bank S.A./N.V., Brussels. Balances of market participants as at 31 December 2018 include account balances of the said client totaling RUB 8 294 572 thousand (31 December 2017: RUB 6 144 102 thousand).

### 18. Financial assets at fair value through profit or loss

	31 December 2018	31 December 2017
Derivative financial instruments at fair value through profit or loss	27 660	-
Shares issued by foreign companies	6 560	-
Shares issued by Russian companies	6 551	-
Bonds issued by the CBR	-	9 062 459
Bonds issued by the Russian Federation	-	7 660 949
<b>Total financial assets at fair value through profit or loss</b>	<b>40 771</b>	<b>16 723 408</b>

As at 31 December 2017 financial assets at fair value through profit and loss of RUB 14 696 649 thousand were included in the "Blocked by the CBR" section of NSD's securities account and could be used as a collateral for NSD's borrowings within the limit set by the CBR (see CBR Regulation No. 236-P, "The procedure for the provision by the Bank of Russia to credit institutions of loans secured by pledging (blocking) securities" dated 4 August 2003).

The table below shows the analysis of derivatives at fair value through profit or loss as at 31 December 2018:

	Contractual amount		Assets – positive fair value	Liabilities – negative fair value
	Receivables	Payables		
Currency swaps	17 497 929	(17 470 668)	27 660	(399)

The negative fair value of derivative financial instruments at fair value through profit or loss in the amount of RUB 399 thousand is included in other liabilities (Note 23).

As at 31 December 2017, NSD had no open positions under derivative financial instruments at fair value through profit or loss.

# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

### 19. Property and equipment and intangible assets

	Land	Buildings and other real estate	Furniture and equipment	Intangible assets	Intangible assets in development	Total
<b>Cost</b>						
<b>31 December 2016</b>	<b>94 139</b>	<b>2 684 210</b>	<b>790 956</b>	<b>2 085 015</b>	<b>265 925</b>	<b>5 920 245</b>
Additions	-	-	67 342	584 268	104 701	<b>756 311</b>
Reclassification	-	-	-	205 486	(205 486)	-
Disposals	-	-	(5 633)	(158 730)	-	<b>(164 363)</b>
<b>31 December 2017</b>	<b>94 139</b>	<b>2 684 210</b>	<b>852 665</b>	<b>2 716 039</b>	<b>165 140</b>	<b>6 512 193</b>
Additions	-	-	133 742	539 909	60 787	<b>734 438</b>
Reclassification	-	-	-	156 544	(156 548)	<b>(4)</b>
Disposals	-	-	(20 681)	(80 013)	-	<b>(100 694)</b>
<b>31 December 2018</b>	<b>94 139</b>	<b>2 684 210</b>	<b>965 726</b>	<b>3 332 479</b>	<b>69 379</b>	<b>7 145 933</b>
<b>Accumulated depreciation and impairment</b>						
<b>31 December 2016</b>	-	<b>290 938</b>	<b>444 730</b>	<b>524 776</b>	-	<b>1 260 444</b>
Charge for the period	-	53 684	172 414	350 860	-	<b>576 958</b>
Written off on disposal	-	-	(5 608)	(157 455)	-	<b>(163 063)</b>
<b>31 December 2017</b>	-	<b>344 622</b>	<b>611 536</b>	<b>718 181</b>	-	<b>1 674 339</b>
Charge for the period	-	53 684	159 849	482 124	-	<b>695 657</b>
Written off on disposal	-	-	(20 340)	(65 926)	-	<b>(86 266)</b>
<b>31 December 2018</b>	-	<b>398 306</b>	<b>751 045</b>	<b>1 134 379</b>	-	<b>2 283 730</b>
<b>Net book value</b>						
<b>31 December 2017</b>	<b>94 139</b>	<b>2 339 588</b>	<b>241 129</b>	<b>1 997 858</b>	<b>165 140</b>	<b>4 837 854</b>
<b>31 December 2018</b>	<b>94 139</b>	<b>2 285 904</b>	<b>214 681</b>	<b>2 198 100</b>	<b>69 379</b>	<b>4 862 203</b>

Intangible assets include computer software, trademarks and licenses.

As at 31 December 2018, NSD's historical cost of fully depreciated property and equipment amounts to RUB 484 783 thousand (31 December 2017: RUB 296 743 thousand).

As at 31 December 2018, NSD's historical cost of fully depreciated intangible assets amounts to RUB 69 600 thousand (31 December 2017: RUB 11 866 thousand).

# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

### 20. Other assets

	31 December 2018	31 December 2017
<b>Other financial assets:</b>		
Services and other accounts receivable	546 696	421 858
Other assets	349	-
Available-for-sale investments	-	9 233
Less allowance for impairment (Note 13)	(15 131)	(7 107)
<b>Total other financial assets</b>	<b>530 914</b>	<b>423 984</b>
<b>Other non-financial assets:</b>		
<b>Prepaid intangible assets</b>	<b>110 256</b>	<b>137 965</b>
Prepaid expenses	103 678	41 841
Tax receivable other than income tax	8 748	22 493
<b>Total other assets</b>	<b>753 596</b>	<b>626 283</b>

Due to the first application of IFRS 9 assets in amount of RUB 9 233 thousands from investments available for sale category were reclassified in the financial assets at fair value through profit and loss (Note 3).

### 21. Balances of market participants

	31 December 2018	31 December 2017
Balances of credit institutions	75 647 169	105 623 437
Balances of financial companies	16 864 089	16 619 689
Balances of CBR	234	157
<b>Total balances of market participants</b>	<b>92 511 492</b>	<b>122 243 283</b>

As at 31 December 2018 NSD's balances of market participants in the amount of RUB 72 514 027 thousand (78%), (31 December 2017 NSD's balances of market participants in the amount of RUB 105 953 195 thousand (87%)) related to 10 market participants which is a significant concentration.

Balances of market participants as at 31 December 2018 include account balances of the said sanctioned client bank totaling RUB 8 294 572 thousand (31 December 2017: RUB 6 144 102 thousand) (Note 17).

### 22. Distributions payable to holders of securities

Distributions payable to holders of securities comprise dividends and coupon amounts received by NSD from the issuers of securities on behalf of customers of NSD, for which NSD provides depository services.

The normal settlement period for distribution of dividends and coupon amounts to its customers is three days. Amounts of dividends and coupons payable to clients are stated at their contractual values.

# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

### 23. Other liabilities

	31 December 2018	31 December 2017
<b>Other financial liabilities:</b>		
Payroll settlements	497 415	459 649
Payables for services	92 597	98 166
Tax agent liabilities regarding distributions payable to holders of securities	32 319	211 067
Derivative financial liabilities (Note 18)	399	-
Dividends payable	-	2
Other	997	663
<b>Total other financial liabilities</b>	<b>623 727</b>	<b>769 547</b>
<b>Other non-financial liabilities:</b>		
Advances received for depository services	231 775	250 477
Taxes payable other than income tax	22 047	19 989
<b>Total other liabilities</b>	<b>877 549</b>	<b>1 040 013</b>

### 24. Share capital and share premium

As at 31 December 2018 and 31 December 2017 NSD's share capital comprised of 1 180 675 ordinary registered shares with par value of RUB 1 000 each.

Share capital is reported in accordance with IAS 29 *Financial Reporting in Hyperinflationary Economies*. As at 31 December 2018 and 31 December 2017 the share capital including inflation adjustment amounted to RUB 1 193 982 thousand.

Share premium represents an excess of the sale price of NSD's share over their par value. Share premium was formed as a result of a merger of NDC and MICEX SH (Note 1) and sale of shares to the former shareholders of NDC.

### 25. Retained earnings

During the year ended 31 December 2018, NSD declared dividends on ordinary shares for 2017, which amounted to RUB 2 689 521 thousand, and paid RUB 2 689 523 (31 December 2017: declared dividends on ordinary share for 2016 in the amount of RUB 2 106 359 thousand and paid RUB 2 106 357). Dividends for 2017 declared during year ended 31 December 2018 are RUB 2 277,95 per ordinary share (31 December 2017: RUB 1 784,03 per ordinary share).

NSD's distributable reserves are limited to the amount of reserves reported in the statutory financial statements of NSD. Non-distributable reserves comprise a reserve fund, which is created according to the statutory regulations to cover risks, including future losses and other unforeseen risks and contingencies. The reserve fund was formed in accordance with Articles of association of NSD providing for the establishment of a reserve for these purposes of not less than 15% of the share capital NSD according to RAS. As at 31 December 2018 and 31 December 2017 reserve fund amounted to RUB 177 101 thousand.

# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

### 26. Commitments and contingencies

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

	31 December 2018	31 December 2017
Less than 1 year	5 461	7 127
<b>Total operating lease liabilities</b>	<b>5 461</b>	<b>7 127</b>

**Legal proceedings** – From time to time and in the normal course of business claims against NSD may be received from customers and counterparties. Management believes that no material losses will be incurred by NSD as a result of such claims and accordingly no provisions have been made in these Financial Statements.

**Operating environment** – The Russian economy continued to be negatively impacted by ongoing political tension in the region and continuing international sanctions imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, economic recession and other negative economic consequences. The impact of further economic developments on future operations and financial position of NSD is at this stage difficult to determine.

**Fiduciary activities** – NSD provides depository services to its customers. As at 31 December 2018 and 2017, NSD had customer securities totaling 123 590 bln items and 124 304 bln items, respectively, in its nominal holder accounts.

**Taxation** – A substantial part of the activities of NSD carried out in the Russian Federation. Some provisions of the Russian tax, currency and customs legislation as at present in force are defined not clearly enough, which frequently leads to different interpretations (that can be applied to the past legal matters), selective and inconsistent application and also in some cases to changes that are hard to predict.

NSD's management interpretation of such legislation as applied to its operations and activity may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation and application of this legislation and assessments. It is therefore possible that transactions and activities of NSD that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities. Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

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 1 January 2019.

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

**Insurance** – NSD has insurance policies from Ingosstrakh Insurance Company. The insurance packages comprise fraud, errors and omissions coverage and a comprehensive liability and crime policy. The comprehensive liability and crime policy has been developed especially for insuring professional risks of clearing houses and central securities depositories. The total coverage level for the packages of insurance is USD 65 million or RUB 4 515 589 thousand at the rate of CBR on the reporting date (December 31, 2017: USD 65 million or RUB 3 744 013 thousand at the rate of CBR on the reporting date).

# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

### 27. Transactions with related parties

**Transactions with key management.** Key management personnel comprise members of the Supervisory Board, Chairman of the Executive Board and members of the Executive Board. The total remuneration paid to key management personnel includes short-term benefits (salary, bonuses, payroll related taxes, insurance, health care, etc.), long-term benefits and payments based on the shares of the parent company.

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

	<b>31 December 2018</b>	<b>31 December 2017</b>
Other liabilities	103 840	85 650
Payments based on the shares of the parent company	24 506	981

Included in the Statement of Profit and Loss are the following amounts that arose due to transactions with key management personnel:

	<b>Year Ended 31 December 2018</b>	<b>Year Ended 31 December 2017</b>
Short-term employee benefits except payments based on the shares of the parent company	162 527	147 716
Payments based on the shares of the parent company	23 525	981
Long-term employee benefits	7 737	6 991
<b>Total remuneration of key management personnel</b>	<b>193 789</b>	<b>155 688</b>

**Transactions with government-related parties.** NSD is a subsidiary of the Moscow Exchange holding 99,997% shares as at 31 December 2018 and 31 December 2017.

As at 31 December 2018 and 31 December 2017 the Russian Federation exercises significant influence over NSD.

Transactions with state-related entities constitute a significant part of NSD's operations. Such transactions include depository, settlement and repository services, attracting deposits, placement of funds with government-related banks, as well as bonds issued by the Russian Federation or state-related entity.

According to p.26 (b) of IAS 24 NSD discloses the following significant outstanding balances with government-related entities:

	<b>31 December 2018</b>	<b>31 December 2017</b>
Cash and cash equivalents	3 226 244	37 310 474
Financial assets at fair value through profit or loss	-	16 723 408
Financial assets at fair value through other comprehensive income	12 106 377	-
Other assets	263 436	175 387
Balances of market participants	18 754 960	10 595 974
Distributions payable to holders of securities	22 210 604	1 550 990
Other liabilities	102 410	95 807

# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

### 27. Transactions with related parties (continued)

Financial results on operations with government-related entities:

	Year Ended 31 December 2018	Year Ended 31 December 2017
Fee and commission income	2 304 755	1 899 236
Interest and other financial income	1 604 519	1 202 804
Net gain on financial assets at fair value through other comprehensive income	21 164	-
Other income	(8 778)	-
Administrative and other operating expenses	(22 693)	(7 561)
Commission expenses	(16 608)	(37 937)

**Transactions with parent company and Moscow Exchange Group.** Parent company - Moscow Exchange (controlling shareholder) - provides technical and informational supporting services, as well as representation services to NSD.

The terms and conditions of transactions with related parties are similar to those on which NSD operates with other counterparties.

Included in statement of financial position are the following amounts in respect of significant transactions with related parties:

	31 December 2018		31 December 2017	
	Parent	Other	Parent	Other
Cash and cash equivalents	-	75 056 969	-	61 802 039
Financial assets at fair value through profit or loss	-	17 018	-	-
Due from banks	-	10 000	-	10 000
Other assets	1 816	30 514	1 797	27 581
Balances of market participants	979 463	33 275 096	555 254	80 420 622
Other liabilities	18 695	446	9 006	-

Included in the statement of profit or loss are the following amounts in respect of significant transactions with related parties:

	Year Ended 31 December 2018		Year Ended 31 December 2017	
	Parent	Other	Parent	Other
Fee and commission income	7 159	239 137	6 951	186 039
Interest and other financial income	-	-	-	(2 072)
Net gain from operations with derivatives at fair value through profit or loss	-	176 715	-	263 094
Other income	11 589	13 933	11 740	13 989
Administrative and other operating expenses	(78 428)	(4)	(54 464)	(3)
Commission expenses	(10 973)	(7 494)	(12 271)	(27 992)

### 28. Capital management

NSD's capital management policy is aimed to ensure successful and stable operations and to maximize shareholder's value.

The capital structure of NSD consists of share capital, share premium and retained earnings.

NSD's Executive Board reviews the capital structure annually. As a part of this review, the Executive Board considers changes in the cost of capital and the risks associated with each class of capital. Based on recommendations of the Executive Board NSD balances its overall capital structure through the payment of dividends or new share issues.

## National Settlement Depository

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

#### 28. Capital management (continued)

The CBR established special requirements for credit institutions and banking groups in respect of the minimum amount of capital adequacy calculated based on RAS financial statements. The CBR requires non-banking credit institutions to maintain a ratio of capital to risk-weighted assets ("capital adequacy ratio") at a level exceeding the minimum ratio of 12%.

Being a professional participant of the securities market, NSD must comply with capital adequacy requirements in respect of minimal amounts of equity.

Capital adequacy ratios for NSD were as follows:

Equity		Mandatory equity levels		Capital adequacy ratio	
31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017
8 922 348	8 987 512	4 000 000	4 000 000	27,8	28,1

NSD complied with all external capital adequacy requirements.

#### 29. Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in conducting operations on a voluntary basis between market participants at the measurement date.

NSD measures fair values for financial assets recorded on the statement of financial position at fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market prices in an active market (that are unadjusted) 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 unquoted equity instruments has been determined based on market approach using price/net assets ratio for similar companies.

The table below analyses financial assets and liabilities measured at fair value at 31 December 2018, by the level in the fair value hierarchy into which the fair value measurement is categorized:

	31 December 2018			Total
	Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss	-	27 660	13 111	40 771
Financial assets at fair value through other comprehensive income	12 106 377	-	-	12 106 377
Derivative financial liabilities	-	(399)	-	(399)



# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

### 29. Fair value measurements (continued)

The table below analyses financial assets and liabilities measured at fair value at 31 December 2017, by the level in the fair value hierarchy into which the fair value measurement is categorized

	31 December 2017			Total
	Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss	7 660 949	9 062 459	-	16 723 408
Investments available-for-sale	-	-	9 233	9 233

The fair value of cash and cash equivalents, due from banks, other financial assets, balances of market participants and other financial liabilities as of 31 December 2018 and 31 December 2017 refer to level 2 hierarchy of fair value and approximately equal to their carrying value.

The following table shows a reconciliation for six-month period ended 31 December 2018 for fair value measurements in Level 3 of the fair value hierarchy:

	Financial assets at fair value through profit or loss	Investments available-for-sale
<b>Balance at 31 December 2017</b>	-	9 233
Effect of adoption of IFRS 9 (Note 3)	11 691	(9 233)
<b>Balance at 1 January 2018 (with IFRS 9 effect)</b>	11 691	-
Gains reported in profit or loss	578	-
Foreign exchange	842	-
<b>Balance at 31 December 2018</b>	13 111	-

For the year ended 31 December 2017 there were no changes in the fair value of financial assets classified as level 3 in the fair value hierarchy.

Management of NSD considers that the fair value of financial assets and liabilities which are not carried at fair value in the statement of financial position is approximately equal to their carrying value.

### 30. Risk management policies

Risk management is an integral part of NSD's activities. NSD distinguishes the following significant risks: credit, operational, market, liquidity. Risk management core objectives include identification of sources of risks, measurement of risk levels, development of risk management policies and implementation of risk controls, including setting limits and further compliance with them.

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

**Credit risk.** NSD uses credit risk management approaches under requirements of the Russian regulators, based on the best international practices and standards. NSD's assets are exposed to credit risk, which is defined as the risk of losses resulting from a default or improper performance of their obligations to NSD by its counterparties.

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

# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

### 30. Risk management policies (continued)

The objectives of NSD in credit risk management:

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

NSD controls credit risk by setting limits on a counterparty and groups of related counterparties. Credit risk limits are set on the basis of a comprehensive and in-depth evaluation of the counterparty's financial conditions, analysis of the macroeconomic environment of counterparties' activities, the level of information transparency, business reputation and other financial and non-financial factors. NSD 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 authorized bodies.** Credit risk limits are monitored and reviewed on a regular basis. Also NSD constantly monitors the concentration of credit risk in compliance with applicable prudential requirements.

To reduce credit risk NSD applies specific requirements to the financial conditions of its counterparties.

As explained in Note 3, NSD 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 NSD will measure the loss allowance based on lifetime rather than 12-month ECL.

NSD 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. NSD 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 NSD for strategic planning and budgeting. NSD 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 31 December 2018 for the years 2019-2021, for Russia which is the country where NSD 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 the analysis of historical data over the past 5 years.

NSD 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 31 December 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.

## National Settlement Depository

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

#### 30. Risk management policies (continued)

	As expected		Average PD	ECL Cum
GDP	-3,0%	-	0,62%	22 253
	+3,0%	-	0,56%	20 249
Consumer price index	-3,0%	-	0,59%	21 373
	+3,0%	-	0,56%	20 249
Average nominal wage	-3,0%	-	0,53%	19 125
	+3,0%	-	0,58%	20 902
Money supply	-5,0%	-	0,56%	20 249
	+5,0%	-	0,54%	19 331
USD/RUB rate	-15,0%	-	0,56%	20 249
	+15,0%	-	0,53%	19 311
			0,59%	21 187

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

**Maximum credit risk exposure.** NSD's maximum exposure to credit risk equals to the carrying value of financial assets exposed to credit risk.

As at 31 December 2018 included into other assets are overdue receivables of RUB 11 850 thousand (31 December 2017: RUB 6 540 thousand).

Financial assets are classified according to the current credit ratings issued by international rating agencies (Fitch Ratings, Standard & Poor's and Moody's Investor Services). 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.

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

Tables below do not include equity instruments.

The following table details the credit ratings of other financial assets held by NSD as at 31 December 2018:

	AA	A	BBB	less BBB-	Not rated	31 December 2018 Total
<b>FINANCIAL ASSETS:</b>						
Cash and cash equivalents	19 187 497	5 649 833	78 288 821	78 461	8 745	<b>103 213 357</b>
Financial assets at fair value through profit or loss	-	-	17 018	-	10 642	<b>27 660</b>
Due from banks	8 294 572	-	10 000	-	-	<b>8 304 572</b>
Financial assets at fair value through other comprehensive income	-	-	-	12 106 377	-	<b>12 106 377</b>
Other financial assets	135	118	59 570	267 857	203 234	<b>530 914</b>

# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

### 30. Risk management policies (continued)

As at 31 December 2017:

	AA	A	BBB	less BBB-	Not rated	31 December 2017 Total
<b>FINANCIAL ASSETS:</b>						
Cash and cash equivalents	7 433 227	1 974 970	99 064 768	91 120	4 715	<b>108 568 800</b>
Financial assets at fair value through profit or loss	-	-	16 723 408	-	-	<b>16 723 408</b>
Due from banks	6 144 102	-	10 000	-	-	<b>6 154 102</b>
Other financial assets	24 056	3	31 542	197 615	161 535	<b>414 751</b>

**Geographical concentration.** The geographical concentration of NSD assets and liabilities as at 31 December 2018:

	Russian Federation	OECD countries	Non-OECD countries	31 December 2018 Total
<b>FINANCIAL ASSETS:</b>				
Cash and cash equivalents	78 326 266	24 837 330	51 983	<b>103 215 579</b>
Financial assets at fair value through profit or loss	34 211	6 560	-	<b>40 771</b>
Due from banks	10 000	8 294 572	-	<b>8 304 572</b>
Financial assets at fair value through other comprehensive income	12 106 377	-	-	<b>12 106 377</b>
Other financial assets	503 975	25 475	1 464	<b>530 914</b>
<b>Total financial assets</b>	<b>90 980 829</b>	<b>33 163 937</b>	<b>53 447</b>	<b>124 198 213</b>
<b>FINANCIAL LIABILITIES:</b>				
Balances of market participants	91 408 395	622 595	480 502	<b>92 511 492</b>
Distributions payable to holders of securities	8 311 262	16 277 875	86 834	<b>24 675 971</b>
Other financial liabilities	569 218	54 255	254	<b>623 727</b>
<b>Total financial liabilities</b>	<b>100 288 875</b>	<b>16 954 725</b>	<b>567 590</b>	<b>117 811 190</b>

As at 31 December 2017:

	Russian Federation	OECD countries	Non-OECD countries	31 December 2017 Total
<b>FINANCIAL ASSETS:</b>				
Cash and cash equivalents	99 157 454	9 408 542	4 960	108 570 956
Financial assets at fair value through profit or loss	16 723 408	-	-	16 723 408
Due from banks	10 000	6 144 102	-	6 154 102
Other financial assets	396 134	27 189	661	423 984
<b>Total financial assets</b>	<b>116 286 996</b>	<b>15 579 833</b>	<b>5 621</b>	<b>131 872 450</b>
<b>FINANCIAL LIABILITIES:</b>				
Balances of market participants	121 517 161	392 438	333 684	122 243 283
Distributions payable to holders of securities	2 452 997	54 846	-	2 507 843
Other financial liabilities	731 194	38 290	63	769 547
<b>Total financial liabilities</b>	<b>124 701 352</b>	<b>485 574</b>	<b>333 747</b>	<b>125 520 673</b>

# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

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### 30. Risk management policies (continued)

As at 31 December 2018, the balances with OECD counterparties include the following balances with OECD subsidiaries of Russian companies:

- other assets in the amount of RUB 164 thousand (31 December 2017: RUB 301 thousand);
- balances of market participants in the amount of RUB 385 956 thousand (31 December 2017: RUB 392 263 thousand);
- distributions payable to holders of securities in the amount of RUB 14 674 385 thousand (31 December 2017: RUB 50 174 thousand).

**Liquidity risk.** Liquidity risk is the risk of facing the situation where available funds are insufficient to meet current financial liabilities. The main purpose of liquidity management is to ensure NSD'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.

NSD'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 credits and debits (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 claims on liquidity, i.e. the consequences of the risk that unforeseen future events may claim 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: forecasting/monitoring payment flow and liquidity ratios, planning measures to recover the required liquidity level considering unfavorable and crisis situations, ensuring an optimal structure of assets in accordance with the resource base, taking into account the maturities of fund sources and their volumes when allocating assets to financial instruments.

According to Russian laws and internal regulations, NSD is entitled to make investments in accordance with the limits stipulated by mandatory regulations.

In this respect NSD places temporarily available funds on accounts and deposits with banks, debt securities issued by the Russian Government, deposits with the CBR maturing within 30 calendar days and bonds issued by the CBR. Amounts of deposits placed with the CBR and bonds issued by the CBR are determined on a daily basis within the limits established by decision of the Supervisory Board of NSD. Thus, NSD controls liquidity risk by placement of temporarily available funds in risk-free assets or those exposed to minimal risk.

The liquidity position is controlled on a daily basis in accordance with the internal regulations.

Management expects that the cash flows from certain financial assets will be different from their contractual terms either because NSD has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms.

In the tables below the financial assets and liabilities are presented on a discounted basis and are based on their expected cash flows.

# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

### 30. Risk management policies (continued)

The presentation below is based upon the information provided internally to key management personnel of NSD.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Maturity undefined	31 December 2018 Total
<b>FINANCIAL ASSETS</b>						
Cash and cash equivalents	103 215 579	-	-	-	-	103 215 579
Financial assets at fair value through profit or loss	27 660	-	-	-	13 111	40 771
Due from banks	-	-	-	10 000	8 294 572	8 304 572
Financial assets at fair value through other comprehensive income	12 106 377	-	-	-	-	12 106 377
Other financial assets	530 914	-	-	-	-	530 914
<b>Total financial assets</b>	<b>115 880 530</b>	<b>-</b>	<b>-</b>	<b>10 000</b>	<b>8 307 683</b>	<b>124 198 213</b>
<b>FINANCIAL LIABILITIES</b>						
Balances of market participants	84 216 920	-	-	-	8 294 572	92 511 492
Distributions payable to holders of securities	24 675 971	-	-	-	-	24 675 971
Other financial liabilities	122 977	343 350	140 128	17 272	-	623 727
<b>Total financial liabilities</b>	<b>109 015 868</b>	<b>343 350</b>	<b>140 128</b>	<b>17 272</b>	<b>8 294 572</b>	<b>117 811 190</b>
<b>Liquidity gap</b>	<b>6 864 662</b>	<b>(343 350)</b>	<b>(140 128)</b>	<b>(7 272)</b>	<b>13 111</b>	
<b>Cumulative liquidity gap</b>	<b>6 864 662</b>	<b>6 521 312</b>	<b>6 381 184</b>	<b>6 373 912</b>	<b>6 387 023</b>	

As at 31 December 2018 NSD entered into a series of currency swaps with settlements with a maturity of up to 1 month. The analysis of requirements and obligations under such transactions is presented in Note 18.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Maturity undefined	31 December 2017 Total
<b>FINANCIAL ASSETS</b>						
Cash and cash equivalents	108 570 956	-	-	-	-	108 570 956
Financial assets at fair value through profit or loss	16 723 408	-	-	-	-	16 723 408
Due from banks	-	-	-	10 000	6 144 102	6 154 102
Other financial assets	414 751	-	-	-	9 233	423 984
<b>Total financial assets</b>	<b>125 709 115</b>	<b>-</b>	<b>-</b>	<b>10 000</b>	<b>6 153 335</b>	<b>131 872 450</b>
<b>FINANCIAL LIABILITIES</b>						
Balances of market participants	116 099 181	-	-	-	6 144 102	122 243 283
Distributions payable to holders of securities	2 507 843	-	-	-	-	2 507 843
Other financial liabilities	306 180	3 378	451 049	8 940	-	769 547
<b>Total financial liabilities</b>	<b>118 913 204</b>	<b>3 378</b>	<b>451 049</b>	<b>8 940</b>	<b>6 144 102</b>	<b>125 520 673</b>
<b>Liquidity gap</b>	<b>6 795 911</b>	<b>(3 378)</b>	<b>(451 049)</b>	<b>1 060</b>	<b>9 233</b>	
<b>Cumulative liquidity gap</b>	<b>6 795 911</b>	<b>6 792 533</b>	<b>6 341 484</b>	<b>6 342 544</b>	<b>6 351 777</b>	

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

**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.

**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.

## National Settlement Depository

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

#### 30. Risk management policies (continued)

NSD'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.

NSD's management is responsible for asset-liability management.

The Risk Management Department are responsible for interest rate risk management.

In order to measure the impact of interest rate risk on the fair value of financial instruments NSD 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 NSD, assesses the sensitivity of the impact of interest rate risk on portfolio fair value and income.

The majority of NSD's transactions is represented by fixed income instruments, and hence the contractual maturity dates are also the dates of changes in interest rates.

The impact of changes in fair value of financial assets on the income, losses and equity is conducted based on the interest rates existing as at 31 December 2018 and 31 December 2017, and reasonably possible changes of 150 bps. Corresponding negative and positive results shown in the following table:

	At 31 December 2018		At 31 December 2017	
	Net profit	Equity	Net profit	Equity
150 bp rise	-	(164 193)	(196 562)	(196 562)
150 bp fall	-	167 762	202 227	202 227

**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 NSD are subject to the influence of such fluctuations. The main source of currency risk are open foreign currency positions. NSD maintain control over the currency risk through monitoring of open foreign currency positions.

As at 31 December 2018, NSD had the following positions in different currencies:

	RUB	USD	EUR	Other currencies	31 December 2018 Total
<b>FINANCIAL ASSETS:</b>					
Cash and cash equivalents	29 181 931	56 531 164	17 046 087	456 397	<b>103 215 579</b>
Financial assets at fair value through profit or loss	6 551	-	6 560	-	<b>13 111</b>
Due from banks	848 296	7 456 276	-	-	<b>8 304 572</b>
Financial assets at fair value through other comprehensive income	12 106 377	-	-	-	<b>12 106 377</b>
Other financial assets	530 548	170	196	-	<b>530 914</b>
<b>Total financial assets</b>	<b>42 673 703</b>	<b>63 987 610</b>	<b>17 052 843</b>	<b>456 397</b>	<b>124 170 553</b>
<b>FINANCIAL LIABILITIES:</b>					
Balances of market participants	33 746 263	47 697 676	10 626 875	440 678	<b>92 511 492</b>
Distributions payable to holders of securities	8 309 386	16 303 753	61 301	1 351	<b>24 675 971</b>
Other financial liabilities	568 861	15 199	38 425	843	<b>623 328</b>
<b>Total financial liabilities</b>	<b>42 624 510</b>	<b>64 016 628</b>	<b>10 726 601</b>	<b>443 052</b>	<b>117 810 791</b>
Derivatives	6 356 441	27 660	(6 356 840)	-	27 261
<b>Open position</b>	<b>6 405 634</b>	<b>(1 358)</b>	<b>(30 598)</b>	<b>13 345</b>	

# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

### 30. Risk management policies (continued)

As at 31 December 2017, NSD had the following positions in different currencies:

	RUB	USD	EUR	Other currencies	31 December 2017 Total
<b>FINANCIAL ASSETS:</b>					
Cash and cash equivalents	63 477 344	25 279 145	19 507 611	306 856	<b>108 570 956</b>
Financial assets at fair value through profit or loss	16 723 408	-	-	-	<b>16 723 408</b>
Due from banks	802 956	5 351 146	-	-	<b>6 154 102</b>
Other financial assets	421 127	175	2 682	-	<b>423 984</b>
<b>Total financial assets</b>	<b>81 424 835</b>	<b>30 630 466</b>	<b>19 510 293</b>	<b>306 856</b>	<b>131 872 450</b>
<b>FINANCIAL LIABILITIES:</b>					
Balances of market participants	71 895 872	30 543 014	19 502 761	301 636	<b>122 243 283</b>
Distributions payable to holders of securities	2 445 781	60 998	1 060	4	<b>2 507 843</b>
Other financial liabilities	731 138	2 219	36 115	75	<b>769 547</b>
<b>Total financial liabilities</b>	<b>75 072 791</b>	<b>30 606 231</b>	<b>19 539 936</b>	<b>301 715</b>	<b>125 520 673</b>
<b>Open position</b>	<b>6 352 044</b>	<b>24 235</b>	<b>(29 643)</b>	<b>5 141</b>	

In addition to projecting and analysing its earnings and debt profile by currency, NSD reviews sensitivities to movements in exchange rates, which are appropriate to market conditions. NSD has considered movements in the Euro and the US Dollar rates over the year ended 31 December 2018 and 2017 and has concluded that the following movements in rates are reasonable levels to measure the risk of NSD:

	31 December 2018	31 December 2017
Movement in USD/RUB rate	15%	6%
Movement in EUR/RUB rate	20%	16%

The following table presents the analysis of NSD's sensitivity to reasonably possible change in the US dollar and euro against the Russian ruble:

	At 31 December 2018		At 31 December 2017	
	USD 15%	EUR 20%	USD 6%	EUR 16%
Ruble appreciation	(163)	4 896	(1 163)	3 794
Ruble depreciation	163	(4 896)	1 163	(3 794)

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



# National Settlement Depository

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued) (in thousands of Russian Rubles)

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### 30. Risk management policies (continued)

The sensitivity analysis does not take into consideration that NSD's assets and liabilities are actively managed. Additionally NSD's financial position may vary at the time that any actual market movement occurs. For example, NSD's financial risks management strategy is aimed at managing the exposure to market fluctuation. In the event of sharp negative fluctuations of prices on the securities market, management actions could include selling investments, changing trade portfolio structure and taking other protective actions. Consequently, changes in assumptions may have no effect on liabilities while significantly influencing assets recorded at fair value in the statement of financial position. In these circumstances, different measurement bases for assets and liabilities may lead to significant equity fluctuations.

Other limitations of the above sensitivity analysis include the use of hypothetical market movements to demonstrate potential risk that only represent NSD's view of future market changes that cannot be predicted with any certainty. Another assumption is that all interest rates change in a similar way.

**Price risk.** Price risk is the risk of potential losses as a result of adverse changes in the value of financial instruments

The basis for assessing price risk is the value of securities that are measured at fair value through profit and loss and available for sale.

The procedure for calculating indicators that characterize the magnitude of price risk is determined by the Financial Risk Assessment Method of NSD, approved by NSD's Executive Board. If there is a portfolio of securities that are sensitive to changes in market value, a sensitivity analysis is made to the possible changes in market value, which will coincide with the sensitivity of changes in interest rates (Note 30 Interest Rate Risk).

In order to manage price risk, limits on investments in financial market instruments, limits on the maximum loss from investing in financial market instruments and other limits, as appropriate, may be established.

**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 behaviour or IT failure.

Effective operational risk management helps to balance mitigation of financial losses and reputation delusion with the overall cost effectiveness and redundant control procedures that restrict initiative and creativity.

NSD's Supervisory Board 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.

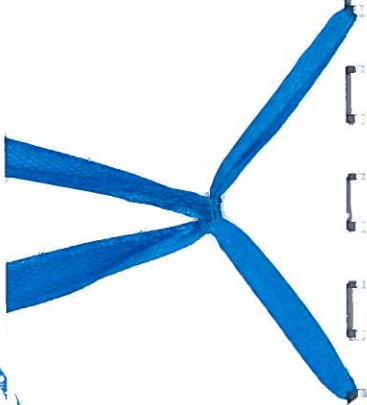
Both external and internal risk factors are identified and managed throughout the business units within their functional duties. The primary responsibility for the implementation of controls to address operational risk is assigned to management within each business unit.

Operational risk factors include:

- performers error at any stage of the operation, including in manual or automated data processing;
- faults and failures in the hardware and software, i.e. disrupt the normal functioning of computer systems and (or) communication systems supporting the main activities of NSD;
- loss of information, disclosure of confidential information, unauthorized access to information technology resources.

Elimination of manual data processing is one of the ways to mitigate operating risk. NSD constantly seeks to ensure maximum possible automated processes of information acceptance, transfer and processing. To minimize human errors NSD has established a system of multi-stage preliminary, current and subsequent control of personnel's compliance with the regulatory requirements as well as orders, provisions and other internal regulations of NSD in performing their assigned functions.

Operational risk management also includes the overall control of the levels of legal, compliance risk and the reputational risk.



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