

National Settlement Depository

Financial Statements and
Independent Auditor's Report
For the Year Ended 31 December 2017

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 December 31, 2017, and the 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 December 31, 2017, 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

The financial statements of the Organization for the year ended December 31, 2016, were audited by another auditor, who expressed an unmodified opinion on those financial statements on March 22, 2017.

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.

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

Report on Procedures Performed in Accordance with Federal Law No. 395-1 On Banks and Banking Activities dated December 2, 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 December 2, 1990 (hereinafter, the "Federal Law"), in the course of our audit of the Organization's annual financial statements for 2017 we performed procedures with respect to the Organization's compliance with the obligatory ratios as at January 1, 2018 and compliance of its internal control and risk management systems with the CBRF requirements.

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


We report our findings below:

1. With respect to the Organization's compliance with the obligatory ratios: the obligatory ratios as at January 1, 2018 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 December 31, 2017, its financial performance and its cash flows for 2017 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 December 31, 2017 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 December 31, 2017, 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 December 31, 2017, 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 2017 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 December 31, 2017, 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 2017 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.


Sergei Neklyudov,
Engagement Partner

13 April 2018

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: ZAO "Deloitte & Touche CIS"

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

Primary state registration number: 1027700425444

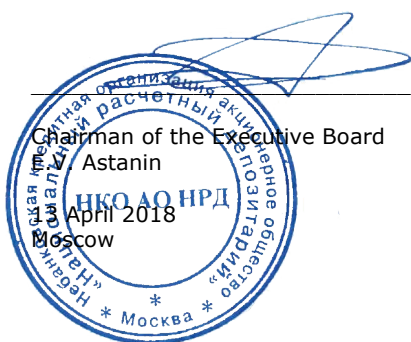
Certificate of registration in Unified State Register: № 77 004840299 of 13.11.2002 issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

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

National Settlement Depository

Statement of Comprehensive Income for the Year Ended 31 December 2017 (in thousands of Russian Rubles)

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Fee and commission income	5	4 659 943	4 011 039
Interest income	6	344 029	1 108 868
Net gain from operations with derivatives at fair value through profit or loss	7	655 894	312 422
Net gain from operations with securities at fair value through profit or loss	8	1 068 996	1 403 053
Net gain from foreign exchange transactions		8 869	6 652
Other income	9	42 506	35 617
Operating income		6 780 237	6 877 651
Personnel expenses	10	(1 589 397)	(1 544 554)
Administrative and other operating expenses	11	(1 279 983)	(1 049 873)
Commission expenses	12	(653 488)	(578 964)
Profit before tax		3 257 369	3 704 260
Income tax expense	13	(623 019)	(731 496)
Net profit		2 634 350	2 972 764
Total comprehensive income		2 634 350	2 972 764




 Chief Accountant
 I.E. Veremeenko
 13 April 2018
 Moscow

The notes 1–29 form an integral part of these financial statements.

National Settlement Depository

Statement of Financial Position at 31 December 2017 (in thousands of Russian Rubles)

	Notes	31 December 2017	31 December 2016
ASSETS			
Cash and cash equivalents	14	108 570 956	97 964 940
Financial assets at fair value through profit or loss	15	16 723 408	11 120 158
Due from banks	16	6 154 102	4 563 722
Property and equipment	17	2 674 856	2 833 637
Intangible assets	17	2 162 998	1 826 164
Current tax prepayments		45 164	8 966
Deferred tax assets	13	59 252	47 479
Other assets	18	626 283	488 687
Total assets		137 017 019	118 853 753
LIABILITIES			
Balances of market participants	19	122 243 283	104 394 974
Distributions payable to holders of securities	20	2 507 843	2 952 276
Other liabilities	21	1 040 013	809 595
Total liabilities		125 791 139	108 156 845
EQUITY			
Share capital	22	1 193 982	1 193 982
Share premium	22	1 957 050	1 957 050
Payments based on the shares of the parent company		981	3 531
Retained earnings	23	8 073 867	7 542 345
Total equity		11 225 880	10 696 908
Total liabilities and equity		137 017 019	118 853 753

The notes 1–29 form an integral part of these financial statements.

National Settlement Depository

Statement of Cash Flows for the Year Ended 31 December 2017 (in thousands of Russian Rubles)

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES:			
Profit before tax		3 257 369	3 704 260
Adjustments for:			
Depreciation of property and equipment and amortisation of intangible assets	11, 17	576 958	366 676
Net change in fair value of financial assets and liabilities at fair value through profit or loss		(74 599)	12 163
Net change of other accrued income/expense		191 192	(675)
Net change in payments based on the shares of the parent company	10	981	(1 321)
Unrealized losses on foreign exchange operations		4 814	4 043
Net loss/(gain) on disposal of property and equipment and intangible assets	11, 9	1 300	(942)
Changes in operating assets and liabilities:			
(Increase)/decrease in operating assets:			
Financial assets at fair value through profit or loss		(5 528 651)	(4 948 758)
Due from banks		(1 797 621)	(2 739 304)
Other assets		(3 792)	(9 530)
Increase/(decrease) in operating liabilities:			
Balances of market participants		16 952 466	4 464 755
Distributions payable to holders of securities		(22 549)	(3 490 123)
Other liabilities		19 183	18 246
Cash flows from/(used in) operating activities before taxation		13 577 051	(2 620 510)
Income tax paid		(670 990)	(346 795)
Cash flows from/(used in) operating activities		12 906 061	(2 967 305)

The notes 1–29 form an integral part of these financial statements.

National Settlement Depository

Statement of Cash Flows for the Year Ended 31 December 2017 (continued) (in thousands of Russian Rubles)

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES:			
Purchase of intangible assets		(696 768)	(1 039 779)
Purchase of property and equipment		(179 747)	(177 138)
Proceeds from disposal of property and equipment and intangible assets		-	986
Cash flows used in investing activities		(876 515)	(1 215 931)
CASH FLOWS USED IN FINANCING ACTIVITIES:			
Dividends paid shareholders	23	(2 106 357)	(4 611 746)
Cash flows used in financing activities		(2 106 357)	(4 611 746)
Effect of changes in foreign exchange rates on cash and cash equivalents		682 827	(13 252 276)
Net increase/(decrease) in cash and cash equivalents		10 606 016	(22 047 258)
Cash and cash equivalents at the beginning of the year	14	97 964 94	120 012 198
Cash and cash equivalents at the end of the year	14	108 570 956	97 964 940

Interest received by NSD for the year ended 31 December 2017 amounted to RUB 1 344 177 thousand (31 December 2016: RUB 2 516 846 thousand).

The notes 1–29 form an integral part of these financial statements.

National Settlement Depository

Statement of Changes in Equity for the Year Ended 31 December 2017 (in thousands of Russian Rubles)

	Share capital	Share premium	Payments based on the shares of the parent company	Retained earnings	Total equity
31 December 2015	1 193 982	1 957 050	22 040	9 164 139	12 337 211
Total comprehensive income for the period	-	-	-	2 972 764	2 972 764
Dividends declared (Note 23)	-	-	-	(4 611 746)	(4 611 746)
Payments based on the shares of the parent company (Note 10)	-	-	(18 509)	17 188	(1 321)
31 December 2016	1 193 982	1 957 050	3 531	7 542 345	10 696 908
Total comprehensive income for the period	-	-	-	2 634 350	2 634 350
Dividends declared (Note 23)	-	-	-	(2 106 359)	(2 106 359)
Payments based on the shares of the parent company (Note 10)	-	-	(2 550)	3 531	981
31 December 2017	1 193 982	1 957 050	981	8 073 867	11 225 880

The notes 1–29 form an integral part of these financial statements.

National Settlement Depository

Notes to the Financial Statements for the year ended 31 December 2017 (in thousands of Russian Rubles)

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 CIS, authorized to assign the international ISIN, CFI, as well as pre-Local Operating Unit of a global system of legal entities identification, authorized to assign legal entities pre-LEI codes.

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 May 31, 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 July 26, 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 CBR on 20 December 2012 for clearing activities;
- License LSZ No. 0009523, Registration No. 13169 H, 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 national important payment system based on the certificate issued by the Bank of Russia on 26 December 2012.

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

NSD is a subsidiary of Open Joint-Stock Company Moscow Exchange MICEX-RTS (hereinafter – “Moscow Exchange”). As at 31 December 2017 and 31 December 2016 the share of ownership comprised 99,997%.

As at 31 December 2017 and 31 December 2016 entities controlled by the Russian Federation together hold more than 20% of the Moscow Exchange voting shares. Consequently, Russian Federation exercises significant influence over NSD.

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

NSD is located on the territory of the Russian Federation.

As at 31 December 2017 NSD had 500 employees (31 December 2016: 486 employees).

National Settlement Depository

Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

2. Basis of preparation

Statement of compliance. These Financial Statements have been prepared in accordance with 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 maintain their 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.

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.

The financial statements approval. The Executive Board approved the financial statements on 13 April 2018.

3. Significant accounting policies

Revenue recognition

Fee and commission income. Fee and commission income is recognised when services are provided.

Interest income. Interest income from assets carried at amortized cost is recognised on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future payments or cash receipts to the net carrying amount of the financial asset.

Once a financial asset or a group of similar financial assets has been written down (partially written down) as a result of impairment, interest income is thereafter recognised at the interest rate used to discount future cash flows for the purpose of measuring the impairment loss.

Interest income from assets at fair value is recognised in net profit from financial assets at fair value through profit or loss.

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.

Financial instruments. Financial assets and liabilities are recognised in the Statement of Financial Position when NSD becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets. Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" (FVTPL), "available-for-sale" (AFS) financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial asset and is determined at initial recognition.

National Settlement Depository

Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

Financial assets at fair value through profit or loss. A financial asset is classified as at FVTPL when it is held for trading.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is a part of a portfolio of identified financial assets that NSD manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not a designated as effective hedging instrument.

Fair value of financial assets at FVTPL is determined in the manner described in Note 27.

Loans and receivables. Loans and receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Available-for-sale financial assets. Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to profit or loss. However, interest calculated using the effective interest method is recognised in profit or loss.

Impairment of financial assets. Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been negatively affected.

For financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty;
- Breach of contract, such as default or delinquency in interest or principal payments;
- Default or delay in payment of interests or principal amount;
- It becomes probable that the debtor will enter bankruptcy or financial reorganization;
- Disappearance of an active market for that financial asset as a result of financial difficulties.

For financial assets carried at amortized cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of "loans and receivables" is reduced with an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account.

Derecognition of financial assets. A financial asset (or, where applicable a part of the financial asset or part of a group of similar financial assets) is derecognised where:

- Rights to receive cash flows from the asset have expired;
- NSD has transferred its rights to receive cash flows from the asset or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement;
- NSD either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

National Settlement Depository

Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

If substantially all the risks and rewards have been neither retained nor transferred, NSD assesses whether or not it has retained control of the asset. If NSD has not retained control, the asset is derecognised. Where NSD retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement.

Financial liabilities

Classification as debt or equity. Debt and equity instruments are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial liabilities. Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at fair value through profit or loss. Financial liabilities classified as "at FVTPL" include derivatives.

Other financial liabilities. Other financial liabilities, including accounts of market participants, distributions payable to holders of securities and other liabilities are initially measured at fair value, net of transaction costs.

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.

Subsequently, all other financial liabilities are recognised at amortized cost. Interest expense is measured using the effective interest method.

Derecognition of financial liabilities. NSD derecognises financial liabilities when, and only when, NSD's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit and loss.

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:

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

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.

National Settlement Depository

Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

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:

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

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.

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.

National Settlement Depository

Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

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.

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.

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 recognised in other income.

The exchange rates used by NSD in the preparation of these financial statements as at year-end are as follows:

	31 December 2017	31 December 2016
RUB / 1 USD	57,6002	60,6569
RUB / 1 EUR	68,8668	63,8111

National Settlement Depository

Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

Adoption of new and revised standards. 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 ending on 31 December 2017.

The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to NSD's accounting policies that have affected the amounts reported for the current or prior years.

Amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of NSD:

Amendments to IAS 7 Disclosure Initiative. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The application of these amendments has had no impact on NSD's financial statements, as NSD has no liabilities arising from financing activities both as at 31 December 2017 and as at 31 December 2016.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

The application of these amendments has had no impact on NSD's financial statements.

Annual Improvements to IFRSs 2014-2016 Cycle. NSD has applied the amendments to IAS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by NSD.

IAS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IAS 12 for such interests.

The application of these amendments has had no effect on NSD's financial statements as none of NSD's interests in these entities is classified, or included in a disposal group that is classified, as held for sale.

New and revised IFRSs in issue but not effective. Standards issued but not yet effective up to the date of issuance of NSD's financial statements are listed below. This listing of standards and interpretations issued are those that NSD reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. NSD intends to adopt these standards when they become effective.

IFRS 9 Financial Instruments. IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

National Settlement Depository

Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

Key requirements of IFRS 9:

- **Classification and measurement of financial assets.** All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- **Classification and measurement of financial liabilities.** With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- **Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on an analysis of NSD's financial assets and financial liabilities as at 31 December 2017 based on the facts and circumstances that exist at that date, Management of NSD has assessed the impact of IFRS 9 to NSD's financial statements as follows:

Classification and measurement

- Amounts due from financial institutions and liabilities carried at amortised cost: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of IFRS 9.
- Listed bonds classified as financial assets at fair value through profit or loss carried at fair value as disclosed in Note 15: these are held within a business model whose objective is achieved both by collecting contractual cash flows and selling the bonds in the open market, and their contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal outstanding. Accordingly, the listed bonds will continue to be subsequently measured at FVTOCI upon the application of IFRS 9, and the fair value gains or losses accumulated in the investment revaluation reserve will continue to be subsequently reclassified to profit or loss when the listed bonds are derecognised or reclassified except those the contractual terms of which are not solely payments of principal and interest;
- All other financial assets and financial liabilities will continue to be measured on the same basis as is currently adopted under IAS 39.

National Settlement Depository

Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

Impairment. Financial assets measured at amortised cost will be subject to the impairment provisions of IFRS 9.

NSD expects to apply the simplified approach to recognise lifetime expected credit losses for amounts due from financial institutions, cash and cash equivalents and receivables as required or permitted by IFRS 9. Management of NSD considers that they have low credit risk given their strong external credit rating and hence expect to recognise 12-month expected credit losses for these items.

In general, given low credit risk of NSD's financial assets, measured at amortized cost, Management of NSD estimates the total effect of expected loss provision will be no higher than RUB 40 million.

IFRS 15 Revenue from Contracts with Customers. IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. 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. Guidance that is far more prescriptive has been added in IFRS 15 to deal with specific scenarios. Furthermore, IFRS 15 requires extensive disclosures.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

Management of NSD does not anticipate that the application of IFRS 15 will have a significant impact on the financial position of NSD.

IFRS 16 Leases. IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments 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.

IFRS 16 distinguishes leases and service contracts based on whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion that will be presented as financing and operating cash flows respectively.

National Settlement Depository

Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease as either an operating lease or a finance lease.

Furthermore, IFRS 16 requires extensive disclosures.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted. NSD does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions. The amendments clarify the following:

1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:
 - the original liability is derecognised;
 - the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
 - any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The amendments are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application permitted. Specific transition provisions apply.

Management of NSD does not anticipate that the application of the amendments in the future will have a significant impact on NSD's financial statements.

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).

The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the amendments either retrospectively (if this is possible without the use of hindsight) or prospectively. Specific transition provisions apply.

Management of NSD does not anticipate that the application of the amendments in the future will have a significant impact on NSD's financial statements.

Amendments to IFRS 10 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.

National Settlement Depository

Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

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

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 Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

Management of NSD does not anticipate that the application of this IFRIC will have a material 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:
 - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
 - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. Either entities can apply the Interpretation fully retrospectively (if it is possible without the use of hindsight) or to apply modified retrospective approach without restatement of comparatives.

Management of NSD does not anticipate that the application of this IFRIC will have a material impact on NSD's financial statements.

Amendments to IFRS 9 Prepayment Features with Negative Compensation. The narrow-scope amendments remedy an unintended consequence to the notion of 'reasonable additional compensation'. The amendments allow financial assets with a prepayment option that could result in the option's holder receiving compensation for early termination to meet the SPPI condition if specified criteria are met.

In addition to that, the IASB considered the accounting for financial liabilities that are modified or exchanged that do not lead to derecognition and as a result included in the Basis for Conclusion two paragraphs on that matter. In those paragraphs the Board observes that the accounting in such cases is the same as it is for modifying a financial asset. If the gross carrying amount is changed it will lead to an immediate gain or loss in profit or loss.

The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

Management of NSD does not anticipate that the application of these amendments will have a material impact on NSD's financial statements.

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Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

Amendments to IAS 28 Long-Term Interests in Associates and Joint Ventures. The amendments clarify that IFRS 9, including its impairment requirements, applies to long-term interests in associates and joint ventures that form part of an entity's net investment in these investees. 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 are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9.

Management of NSD does not anticipate that the application of these amendments will have a material impact on NSD's financial statements.

Annual Improvements to IFRSs 2014 - 2016 Cycle. The Annual Improvements include amendments to IFRS 1 and IAS 28 that are not yet mandatorily effective for NSD. The package also includes amendments to IFRS 12 that is mandatorily effective for NSD in the current year.

The amendments to IAS 28 clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture. In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. The amendments apply retrospectively with earlier application permitted.

Both the amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018.

Management of NSD does not anticipate that the application of the amendments in the future will have any impact on NSD's financial statements, as NSD is neither a first-time adopter of IFRS nor a venture capital organisation.

Annual Improvements to IFRSs 2015-2017 Cycle. Annual Improvements to IFRSs 2015-2017 Cycle makes amendments to several standards.

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

The amendments to IAS 12 clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.

The amendments to IAS 23 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.

All amendments are effective for annual periods beginning on or after 1 January 2019.

Management of NSD does not anticipate that the application of these amendments will have a material impact on NSD's financial statements.

National Settlement Depository

Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

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 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 estimation uncertainty

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.

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. Depreciation of intangible assets is disclosed in Note 17.

Deferred income tax assets recognition. The recognised deferred tax assets represent amount of income tax that 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 13.

Impairment of accounts receivable and other assets. NSD regularly reviews its receivables and other assets to assess for impairment. NSD's receivables and other assets impairment provisions are established to recognise incurred impairment losses in its portfolio of receivables and other assets.

NSD uses Management's judgment to estimate the amount of any impairment loss in cases where the debtor has financial difficulties and there are few available sources of historical data relating to similar debtors. Similarly, NSD estimates changes in future cash flows based on past performance, past counterparty behaviour, observable data indicating an adverse change in the payment status, and national or local economic conditions that correlate with defaults on assets in the group.

As at 31 December 2017, the total amount of NSD's accounts receivable less allowance for impairment was RUB 414 751 thousand (31 December 2016: RUB 387 183 thousand).

As at 31 December 2017 and 31 December 2016, the allowance for impairment of other assets is not recognized.

5. Fee and commission income

	Year ended 31 December 2017	Year ended 31 December 2016
Depository services	3 694 701	3 234 632
Collateral management services and clearing services	454 268	404 151
Settlement services	364 481	253 293
Information services	56 233	44 544
Sale of technical services	52 093	45 467
Repository services	38 167	28 952
Total fee and commission income	4 659 943	4 011 039

National Settlement Depository

Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

6. Interest income

	Year ended 31 December 2017	Year ended 31 December 2016
Interest on correspondent and current accounts with other banks	337 673	1 017 559
Interest on deposits with the CBR	6 356	91 309
Total interest income	344 029	1 108 868

All of the interest income is accrued on non-impaired financial assets carried at amortized cost.

Information on interest income accrued on securities at fair value through profit or loss is disclosed in Note 8.

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

In 2017 and 2016 NSD performed currency swap deals at the currency exchange market of Moscow Exchange Group for the purpose of liquidity regulation in various currencies and diversification of profitable base.

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

	Year ended 31 December 2017	Year ended 31 December 2016
Interest income	1 030 569	1 326 493
Net gains from operations with OFZ	38 427	76 560
Total net gains from operations with securities at fair value through profit or loss	1 068 996	1 403 053

9. Other income

	Year ended 31 December 2017	Year ended 31 December 2016
Income from lease	27 946	28 549
License fee	5 000	253
Write-off of accounts payables	309	2 587
Gain on disposal of property and equipment	-	942
Other	9 251	3 286
Total other income	42 506	35 617

National Settlement Depository

Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

10. Personnel expenses

	Year ended 31 December 2017	Year ended 31 December 2016
Personnel expenses except payments based on the shares of the parent company	1 327 791	1 303 880
Payroll related taxes	260 625	241 995
Net change in payments based on the shares of the parent company	981	(1 321)
Total personnel expenses	1 589 397	1 544 554

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 four years. The fair value of the rights is measured at the grant date using a binomial model taking into account the terms and conditions upon which the instruments were granted.

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

	Number	WAEP
Outstanding at 1 January 2016	1 250 001	46,90
Exercised	(502 929)	46,90
Forfeited	(166 667)	46,90
Expired	(413 737)	46,90
Outstanding at 31 December 2016	166 668	46,90
Exercised	3 000 000	46,90
Forfeited	(70 334)	46,90
Expired	(96 334)	46,90
Outstanding at 31 December 2017	3 000 000	46,90

The weighted average remaining contractual life for the share options outstanding as at 31 December 2017 was 2,26 years. The rights outstanding as at 31 December 2016 reached a maturity date. The weighted average fair value of equity rights granted during the year ended December 31, 2017 was RUB 120,39. Exercise prices for rights outstanding as at 31 December 2017 were RUB 120,39 (31 December 2016: RUB 46,90).

The following table lists the inputs to the models used:

Assumption	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%

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

National Settlement Depository

Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

11. Administrative and other operating expenses

	Year ended 31 December 2017	Year ended 31 December 2016
Amortisation of intangible assets (Note 17)	350 860	175 465
Maintenance of property and equipment and intangible assets	335 964	312 087
Depreciation of property and equipment (Note 17)	226 098	191 211
Taxes (other than income tax)	113 517	118 166
Professional services	67 251	78 395
Communication and telecommunication	53 071	43 493
Write-off of materials	33 096	13 236
Corporate events	21 617	27 112
Insurance	20 985	27 081
Business trip expenses	13 209	13 542
Advertising	12 876	11 784
Rent expenses	9 057	10 074
Security	6 837	7 797
Stationery	4 037	5 517
Charity	3 946	4 497
Charge of allowances for potential losses (Note 18)	1 328	5 657
Loss on disposal of property, equipment and intangible assets	1 300	-
Other	4 934	4 759
Total administrative and other operating expenses	1 279 983	1 049 873

Professional services comprise consulting, audit and legal services.

12. Commission expenses

	Year ended 31 December 2017	Year ended 31 December 2016
Depository service commissions	312 738	334 010
Negative interest rates expenses on bank cash accounts	208 513	98 760
Registrar services	68 797	76 357
Bank commissions	48 908	57 741
Other	14 532	12 096
Total commission expenses	653 488	578 964

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Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

13. 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.

Temporary differences comprise:

	Statement of Financial Position		Statement of Comprehensive Income	
	31 December 2017	31 December 2016	Year ended 31 December 2017	Year ended 31 December 2016
Tax effect of deductible temporary differences:				
Property and equipment and intangible assets	434	-	434	(1 293)
Other assets	1 663	1 424	239	167
Other liabilities	87 605	85 623	1 982	(5 571)
	89 702	87 047	2 655	(6 697)
Tax effect of non-deductible temporary differences:				
Financial assets at fair value through profit or loss	(7 869)	(12 557)	4 688	(8 445)
Property and equipment and intangible assets	(20 947)	(22 792)	1 845	(11 298)
Other assets	(1 634)	(4 219)	2 585	(3 836)
	(30 450)	(39 568)	9 118	(23 579)
Deferred tax income/(expense)			11 773	(30 276)
Deferred tax assets	59 252	47 479		

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Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

13. Income tax (continued)

Reconciliation of income tax expense and accounting profit for year ended 31 December 2017 and 31 December 2016 is presented below:

	Year ended 31 December 2017	Year ended 31 December 2016
Profit before income tax	3 257 36	3 704 260
Statutory tax rate	20%	20%
Tax at the statutory tax rate (20%)	651 474	740 852
Tax effect of income taxed at rates different from the statutory tax rate	(52 138)	(57 618)
Tax effect of non-taxable expenses	31 892	50 025
Deferred tax from previously unrecognised temporary differences of a prior period	(8 181)	-
Adjustments in respect of current income tax of previous years	(28)	(1 763)
Income tax expense	623 019	731 496
Current income tax expense	634 820	702 983
Adjustments in respect of current income tax of previous years	(28)	(1 763)
Deferred taxation movement due to origination and reversal of temporary differences	(11 773)	30 276
Income tax expense	623 019	731 496

Deferred tax assets are as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
As at 1 January	47 479	77 755
Change in deferred income tax balances recognised in profit or loss	11 773	(30 276)
As at 31 December	59 252	47 479

14. Cash and cash equivalents

	31 December 2017	31 December 2016
Balances with the CBR	37 262 096	2 691 974
Balances with banks:		
– Russian Federation	61 893 202	40 730 232
– Organization for Economic Cooperation and Development (OECD) countries	9 408 542	54 499 921
– other countries	4 960	40 123
Cash on hand	2 156	2 690
Total cash and cash equivalents	108 570 956	97 964 940

As at 31 December 2017 NSD has balances with four counterparties (31 December 2016: eight counterparties) each of which is greater than 10% of equity. The total aggregate amount of these balances is RUB 106 143 338 thousand or 98% of total cash and cash equivalents as at 31 December 2017 (31 December 2016: RUB 96 364 823 thousand or 98% of total cash and cash equivalents).

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Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

15. Financial assets at fair value through profit or loss

	31 December 2017	31 December 2016
Bonds issued by the CBR	9 062 459	-
Bonds issued by the Russian Federation	7 660 949	11 120 158
Total financial assets at fair value through profit or loss	16 723 408	11 120 158

As at 31 December 2017 financial assets at fair value through profit or loss of RUB 14 696 649 thousand (31 December 2016: RUB 9 115 781 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 CBR Procedure for Lending to Credit Organizations against (locked) Securities* dated August 4, 2003).

16. Due from banks

	31 December 2017	31 December 2016
Account of clearing collective collateral (Guarantee Fund)	10 000	3 000
Other funds	6 144 102	4 560 722
Total due from banks	6 154 102	4 563 722

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/EC sanctioned client bank and locked in a correspondent account of NSD with Euroclear Bank S.A. /N.V., Brussels. Balances of market participants include account balances of the said client totalling RUB 6 144 102 thousand (as at December 31, 2017: RUB 4 560 722 thousand).

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Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

17. Property and equipment and intangible assets

	Land	Buildings and other real estate	Furniture and equipment	Intangible assets	Intangible assets in development	Total
Cost						
31 December 2015	94 139	2 684 210	643 155	1 273 113	31 243	4 725 860
Additions	-	-	177 138	811 902	235 676	1 224 716
Reclassification to other assets	-	-	-	-	(994)	(994)
Disposals	-	-	(29 337)	-	-	(29 337)
31 December 2016	94 139	2 684 210	790 956	2 085 015	265 925	5 920 245
Additions	-	-	67 342	584 268	104 701	756 311
Reclassification	-	-	-	205 486	(205 486)	-
Disposals	-	-	(5 633)	(158 730)	-	(164 363)
31 December 2017	94 139	2 684 210	852 665	2 716 039	165 140	6 512 193
Accumulated depreciation and impairment						
31 December 2015	-	237 254	336 496	349 311	-	923 061
Charge for the period	-	53 684	137 527	175 465	-	366 676
Written off on disposal	-	-	(29 293)	-	-	(29 293)
31 December 2016	-	290 938	444 730	524 776	-	1 260 444
Charge for the period	-	53 684	172 414	350 860	-	576 958
Written off on disposal	-	-	(5 608)	(157 455)	-	(163 063)
31 December 2017	-	344 622	611 536	718 181	-	1 674 339
Net book value						
31 December 2016	94 139	2 393 272	346 226	1 560 239	265 925	4 659 801
31 December 2017	94 139	2 339 588	241 129	1 997 858	165 140	4 837 854

Intangible assets include computer software, trademarks and licenses.

As at 31 December 2017 NSD's historical cost of fully depreciated property and equipment amounts to RUB 296 743 thousand (31 December 2016: RUB 96 541 thousand).

As at 31 December 2017 NSD's historical cost of fully amortized intangible assets amounts to RUB 11 866 thousand (31 December 2016: RUB 155 801 thousand).

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Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

18. Other assets

	31 December 2017	31 December 2016
Other financial assets:		
Services and other accounts receivable	421 858	394 302
Available-for-sale investments	9 233	9 233
Less allowance for impairment	(7 107)	(7 119)
Total other financial assets	423 984	396 416
Other non-financial assets:		
Prepaid intangible assets	137 965	25 560
Prepaid expenses	41 841	60 183
Tax receivable other than income tax	22 493	6 528
Total other assets	626 283	488 687

The movements in allowance for impairment of receivables on services rendered and other operations were as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Beginning of the period	7 119	5 681
Net charge for the period (Note 11)	1 328	5 657
Write-offs	(1 340)	(4 219)
End of the period	7 107	7 119

19. Balances of market participants

	31 December 2017	31 December 2016
Balances of credit institutions	105 623 437	100 027 438
Balances of financial companies	16 619 689	4 367 357
Balances of CBR	157	179
Total balances of market participants	122 243 283	104 394 974

As at 31 December 2017 NSD's balances of market participants in the amount of RUB 105 953 195 thousand (87%), as at 31 December 2016 NSD's balances of market participants in the amount of RUB 89 390 321 thousand (86%) related to 10 market participants which is a significant concentration.

20. 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.

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Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

21. Other liabilities

	31 December 2017	31 December 2016
Other financial liabilities:		
Payroll settlements	459 649	450 709
Tax agent liabilities regarding distributions payable to holders of securities	211 067	-
Payables for services	98 166	92 379
Dividends payable	2	-
Other	663	74
Total other financial liabilities	769 547	543 162
Other non-financial liabilities:		
Advances received for depository services	250 477	245 449
Taxes payable other than income tax	19 989	20 984
Total other liabilities	1 040 013	809 595

22. Share capital and share premium

As at 31 December 2017 and 31 December 2016 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 2017 and 31 December 2016 the share capital includes inflation adjustment of 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 merger of NDC and MICEX SH (Note 1) and sale of shares to the former shareholders of NDC.

23. Retained earnings

During the year ended 31 December 2017 NSD declared dividends on ordinary shares for 2016, which amounted to RUB 2 106 359 thousand, and paid RUB 2 106 357 thousand (31 December 2016: declared dividends on ordinary shares for 2015 in amount of RUB 4 611 746 thousand). Dividends for 2016 declared during the year ended 31 December 2017 is RUB 1 784,03 per ordinary share (31 December 2016: RUB 3 906,02 per ordinary share).

NSD's distributable reserves are limited to the amount of reserves reported in the statutory financial statements of NSD members. 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 NSD share capital according to RAS. As at 31 December 2017 and 31 December 2016, reserve fund amounted to RUB 177 101 thousand.

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Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

24. 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 2017	31 December 2016
Less than 1 year	7 127	8 302
Total operating lease liabilities	7 127	8 302

Legal proceedings – A significant part of NSD's activities are within the Russian Federation. 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 has fully adjusted to the decline in oil prices and sanctions imposed on Russia by a number of countries. The current situation is characterized by conservative macroeconomic management exhibited by authorities, robust net external assets' position, low government debt and relatively high monetary flexibility based on free flotation of the Ruble. Interest rates are subsiding and the inflation has been anchored to low single-digits. The economic uncertainty has decreased substantially amid reduced volatility of the Ruble and the country's capital markets. The projected economic growth is mild and appears unlikely to provide meaningful support to business prospects of NSD. International sanctions imposed on a number of Russian individuals and legal entities remain the key source of uncertainty and potential adverse changes in future.

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 the relevant regional and federal authorities may challenge activity. 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 will be challenged at any time in the future. As a result, the relevant authorities may assess significant additional taxes, penalties and interest. 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.

As at 31 December 2017 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 (December 31, 2016: USD 65 million).

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Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

25. Transactions with related parties

Transactions with key management. Key management personnel comprise members of the Supervisory Board, Chairman of the Executive Board and 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:

	31 December 2017	31 December 2016
Other liabilities	85 650	84 052
Payments based on the shares of the parent company	981	3 531

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

	Year ended 31 December 2017	Year ended 31 December 2016
Short-term employee benefits except payments based on the shares of the parent company	147 716	133 586
Payments based on the shares of the parent company	981	616
Long-term employee benefits	6 991	6 527
Total remuneration of key management personnel	155 688	140 729

Transactions with government-related parties. NSD is a subsidiary of the Moscow Exchange holding 99,997% shares as at 31 December 2017 and 31 December 2016.

As at 31 December 2017 and at 31 December 2016 the entities controlled by the Russian Federation together hold more than 20% of voting shares of Moscow Exchange. Accordingly, as at 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:

Statement of financial position line captions	31 December 2017	31 December 2016
ASSETS		
Cash and cash equivalents	37 310 474	5 754 457
Financial assets at fair value through profit or loss	16 723 408	11 120 158
Other assets	175 387	141 221
Total assets	54 209 269	17 015 836
LIABILITIES		
Balances of market participants	10 595 974	6 392 066
Distributions payable to holders of securities	1 550 990	2 358 884
Other liabilities	95 807	85 135
Total liabilities	12 242 771	8 836 085

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Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

25. Transactions with related parties (continued)

Financial results on operations with government-related entities:

Statement of comprehensive income line captions	Year ended 31 December 2017	Year ended 31 December 2016
Fee and commission income	1 899 236	1 484 659
Interest income	131 736	485 457
Net gain from operations with securities at fair value through profit or loss	1 068 996	1 403 053
Administrative and other operating expenses	(7 561)	(11 863)
Commission expenses	(37 937)	(30 047)

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 the Statement of Comprehensive Income are the following amounts in respect of significant transactions with related parties:

Statement of comprehensive income line captions	Year ended 31 December 2017		Year ended 31 December 2016	
	Parent	Other	Parent	Other
Fee and commission income	6 951	186 039	6 627	133 196
Net gain from operations with derivatives at fair value through profit or loss	-	263 094	-	105 797
Net (loss)/gain from operations with securities at fair value through profit or loss	-	(2 072)	-	34 339
Other income	11 740	13 989	12 043	14 548
Administrative and other operating expenses	(54 464)	(3)	(56 381)	(1 989)
Commission expenses	(12 271)	(27 992)	(11 600)	(7 544)

Included in Interim Condensed Statement of Financial Position are the following amounts in respect of significant transactions with related parties:

Statement of financial position line captions	31 December 2017		31 December 2016	
	Parent	Other	Parent	Other
Cash and cash equivalents	-	61 802 039	-	30 593 467
Due from banks	-	10 000	-	3 000
Other assets	1 797	27 581	1 865	13 498
Balances of market participants	555 254	80 420 622	327 854	62 434 410
Other liabilities	9 006	-	5 143	-

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Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

26. 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.

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 professional participants of the securities market, NSD must comply with capital adequacy requirements in respect of minimal amounts of equity for each company depending on the type of its operations.

Capital adequacy ratios for NSD were as follows:

	Equity		Mandatory equity		Capital adequacy ratio	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
NSD	8 987 512	8 764 280	4 000 000	4 000 000	28,1	22,4

NSD complied with all external capital adequacy requirements.

27. 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.

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Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

27. 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

Financial assets and liabilities measured at fair value at 31 December 2016, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	31 December 2016		Total
	Level 1	Level 3	
Financial assets at fair value through profit or loss	11 120 158	-	11 120 158
Investments available-for-sale	-	9 233	9 233

For the year ended 31 December 2017 and 31 December 2016, 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 their carrying value.

28. 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.

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.

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Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

28. Risk management policies (continued)

Authorized bodies approve credit risk limits. Credit risk limits are monitored and reviewed on a regular basis. In addition, 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.

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

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 2017 and 2016, 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 2017:

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

As at 31 December 2016:

	AA	A	BBB	Less BBB-	Not rated	31 December 2016 Total
FINANCIAL ASSETS:						
Cash and cash equivalents	32 288 215	22 251 823	33 285 450	10 136 757	5	97 962 250
Financial assets at fair value through profit or loss	-	-	11 120 158	-	-	11 120 158
Due from banks	4 560 722	-	3 000	-	-	4 563 722
Other financial assets	15 904	-	45 006	178 445	147 828	387 183

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Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

28. Risk management policies (continued)

Geographical concentration. The geographical concentration of NSD assets and liabilities as at 31 December 2017:

	Russian Federation	OECD countries	Non-OECD countries	31 December 2017 Total
FINANCIAL ASSETS:				
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
Total financial assets	116 286 996	15 579 833	5 621	131 872 450
FINANCIAL LIABILITIES:				
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
Total financial liabilities	124 701 352	485 574	333 747	125 520 673

As at 31 December 2016:

	Russian Federation	OECD countries	Non-OECD countries	31 December 2016 Total
FINANCIAL ASSETS:				
Cash and cash equivalents	43 424 896	54 499 921	40 123	97 964 940
Financial assets at fair value through profit or loss	11 120 158	-	-	11 120 158
Due from banks	3 000	4 560 722	-	4 563 722
Other financial assets	376 470	2 856	17 090	396 416
Total financial assets	54 924 524	59 063 499	57 213	114 045 236
FINANCIAL LIABILITIES:				
Balances of market participants	104 083 712	225 098	86 164	104 394 974
Distributions payable to holders of securities	2 908 972	43 101	203	2 952 276
Other financial liabilities	512 406	30 753	3	543 162
Total financial liabilities	107 505 090	298 952	86 370	107 890 412

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Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

28. Risk management policies (continued)

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 unfavourable 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 experience indicates that cash flows will differ from contractual terms.

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Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

28. Risk management policies (continued)

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

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 Decem- ber 2017 Total
FINANCIAL ASSETS						
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
Total financial assets	125 709 115	-	-	10 000	6 153 335	131 872 450
FINANCIAL LIABILITIES						
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
Total financial liabilities	118 913 204	3 378	451 049	8 940	6 144 102	125 520 673
Liquidity gap	6 795 911	(3 378)	(451 049)	1 060	9 233	
Cumulative liquidity gap	6 795 911	6 792 533	6 341 484	6 342 544	6 351 777	

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Notes to the Financial Statements for the year ended 31 December 2017 (continued)
(in thousands of Russian Rubles)

28. Risk management policies (continued)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Maturity undefined	31 Decem- ber 2016 Total
FINANCIAL ASSETS						
Cash and cash equivalents	97 964 940	-	-	-	-	97 964 940
Financial assets at fair value through profit or loss	11 120 158	-	-	-	-	11 120 158
Due from banks	-	-	-	3 000	4 560 722	4 563 722
Other financial assets	387 183	-	-	-	9 233	396 416
Total financial assets	109 472 281	-	-	3 000	4 569 955	114 045 236
FINANCIAL LIABILITIES						
Balances of market participants	99 834 252	-	-	-	4 560 722	104 394 974
Distributions payable to holders of securities	2 952 276	-	-	-	-	2 952 276
Other financial liabilities	90 223	355 195	88 446	9 298	-	543 162
Total financial liabilities	102 876 751	355 195	88 446	9 298	4 560 722	107 890 412
Liquidity gap	6 595 530	(355 195)	(88 446)	(6 298)	9 233	
Cumulative liquidity gap	6 595 530	6 240 335	6 151 889	6 145 591	6 154 824	

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.

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.

Fixed income instruments represent the majority of NSD's transactions, and hence the contractual maturity dates are also the dates of changes in interest rates.

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Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

28. Risk management policies (continued)

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 December 31, 2017 and December 31, 2016, and reasonably possible changes of 150 bp. Corresponding negative and positive results shown in the following table:

	At 31 December 2017		At 31 December 2016	
	Net profit	Equity	Net profit	Equity
150 bp rise	(196 562)	(196 562)	(131 427)	(131 427)
150 bp fall	202 227	202 227	134 114	134 114

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 2017 NSD had the following positions in different currencies:

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

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Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

28. Risk management policies (continued)

As at 31 December 2016 NSD had the following positions in different currencies:

	RUB	USD	EUR	Other currencies	31 December 2016 Total
FINANCIAL ASSETS:					
Cash and cash equivalents	20 911 763	55 082 906	21 750 864	219 407	97 964 940
Financial assets at fair value through profit or loss	11 120 158	-	-	-	11 120 158
Due from banks	740 315	3 823 407	-	-	4 563 722
Other financial assets	363 665	29 100	3 592	59	396 416
Total financial assets	33 135 901	58 935 413	21 754 456	219 466	114 045 236
FINANCIAL LIABILITIES:					
Balances of market participants	23 531 374	58 901 919	21 742 328	219 353	104 394 974
Distributions payable to holders of securities	2 907 912	34 625	9 275	464	2 952 276
Other financial liabilities	512 564	3 158	27 326	114	543 162
Total financial liabilities	26 951 850	58 939 702	21 778 929	219 931	107 890 412
Open position	6 184 051	(4 289)	(24 473)	(465)	

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 2017 and year ended 31 December 2016 and has concluded that the following movements in rates are reasonable levels to measure the risk of NSD:

	31 December 2017	31 December 2016
Movement in USD/RUB rate	6%	23%
Movement in EUR/RUB rate	16%	23%

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 2017		At 31 December 2016	
	USD	EUR	USD	EUR
	6%	16%	23%	23%
Ruble appreciation	(1 163)	3 794	858	4 895
Ruble depreciation	1 163	(3 794)	(858)	(4 895)

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Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

28. Risk management policies (continued)

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.

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 28 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

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Notes to the Financial Statements for the year ended 31 December 2017 (continued) (in thousands of Russian Rubles)

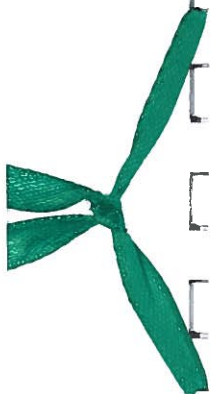
28. Risk management policies (continued)

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.

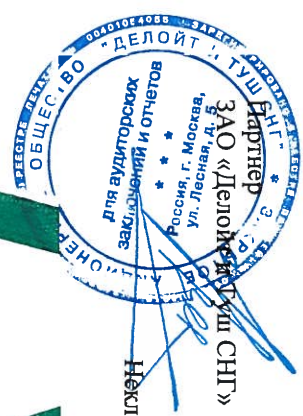
Operational risk management also includes the overall control of the levels of legal, compliance risk and the reputational risk.

29. Events after reporting date

In January-March 2018, NSD carried out a number of large operations with bonds of the Ministry of Finance of the Russian Federation and the Bank of Russia: purchase in the amount of 24 747 434 thousand rubles, repayment in the amount of 9 169 295 thousand rubles, sale in the amount of 511 160 thousand rubles.



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