

Independent auditor's report
on the consolidated financial statements of
National Settlement Depository
and its subsidiary
for the year ended 31 December 2016

March 2017

**Independent auditor's report on the consolidated financial statements of
National Settlement Depository and its subsidiary**

Translation of the original Russian version

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Independent auditor's report

To Shareholders and Supervisory Board of
National Settlement Depository

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of National Settlement Depository (hereafter - NSD) and its subsidiary, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year 2016, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on the fairness of these consolidated financial statements based on our audit.

We conducted our audit in accordance with the federal standards on auditing effective in the Russian Federation. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the audited entity, as well as evaluating the overall presentation of the consolidated financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of NSD and its subsidiary as at 31 December 2016, and their financial performance and cash flows for the year 2016 in accordance with International Financial Reporting Standards.

Report on the results of the work in accordance with the requirements of Article 42 of Federal Law No. 395-1 *Concerning Banks and Banking Activity* of 2 December 1990

The management of NSD is responsible for the NSD's compliance with the obligatory ratios established by the Bank of Russia and for the conformity of the NSD's internal control and organization of the risk management systems with the requirements set forth by the Bank of Russia in respect of such systems.

In accordance with the requirements of Article 42 of Federal Law No. 395-1 *Concerning Banks and Banking Activity* of 2 December 1990 (hereinafter, the "Federal Law"), during the audit of the NSD's annual financial statements for the year ended 31 December 2016, we determined:

- 1) Whether the NSD complies as at 1 January 2017 with the obligatory ratios established by the Bank of Russia;
- 2) Whether the NSD's internal control and organization of the risk management systems conform to the requirements set forth by the Bank of Russia for such systems in respect of the following:
 - ▶ subordination of risk management departments;
 - ▶ existence of methodologies, approved by the NSD's respective authorized bodies, for detecting and managing risks that are significant to NSD and for performing stress-testing, existence of a reporting system at NSD pertaining to its significant risks and capital;
 - ▶ consistency in applying and assessing the effectiveness of methodologies for managing risks that are significant to NSD;
 - ▶ oversight performed by the Supervisory Board and executive management of the NSD in respect of the NSD's compliance with risk limits and capital adequacy requirements set forth in the NSD's internal documents, and effectiveness and consistency of the application of the NSD's risk management procedures.

This work included the procedures selected on the basis of our judgment, such as inquiries, analysis, review of documents, comparison of the requirements, procedures and methodologies approved by the NSD with the requirements set forth by the Bank of Russia, and recalculation, comparison and reconciliation of numerical values and other information.

The results of our work are provided below.

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Compliance by NSD with the obligatory ratios established by the Bank of Russia

We found that the values of obligatory ratios of NSD as of 1 January 2017 were within the limits established by the Bank of Russia.

We have not performed any procedures in respect of the NSD's accounting data, except for the procedures we considered necessary for expressing our opinion on the fair presentation of the consolidated financial statements of NSD.

Conformity of the NSD's internal control and organization of the risk management systems with the requirements set forth by the Bank of Russia in respect of such systems

- ▶ We found that, in accordance with the legal acts and recommendations issued by the Bank of Russia, as at 31 December 2016, the NSD's internal audit division was subordinated and accountable to the Supervisory Board, and the NSD's risk management departments were not subordinated or accountable to the departments that take the relevant risks.
- ▶ We found that the NSD's internal documents effective as at 31 December 2016 that establish the methodologies for detecting and managing risks that are significant to the NSD (currency risk, interest rate risk, price risk, liquidity risk, credit risk, strategic risk, operational risk, legal risk) and stress-testing have been approved by the NSD's authorized bodies in accordance with the legal acts and recommendations issued by the Bank of Russia. We also found that, as at 31 December 2016, NSD has a reporting system pertaining risks that are significant to NSD (currency risk, interest rate risk, price risk, liquidity risk, credit risk, strategic risk, operational risk, legal risk) and pertaining to its capital.
- ▶ We found that the periodicity and consistency of reports prepared by the NSD's risk management departments and internal audit division during the year ended 31 December 2016 with regard to the management of the NSD's risks (currency risk, interest rate risk, price risk, liquidity risk, credit risk, strategic risk, operational risk, legal risk) complied with the NSD's internal documents and that those reports included observations made by NSD's risk management departments and internal audit division in respect of the effectiveness of the NSD's relevant risk management methodologies as well as recommendations on their improvement.
- ▶ We found that, as at 31 December 2016, the authority of the Supervisory Board and executive management bodies of the NSD included control over the NSD's compliance with internally established risk limits and capital adequacy requirements. For the purposes of control over the effectiveness and consistency of the risk management procedures applied by NSD during the year ended 31 December 2016, the Supervisory Board and executive management bodies of NSD regularly reviewed the reports prepared by NSD's risk management departments and internal audit division and measures suggested to address the findings.

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The procedures pertaining to the internal control and organization of the risk management systems were conducted by us solely for the purposes of determining the conformity of certain elements of the NSD's internal control and organization of risk management systems as stated in the Federal Law and described above with the requirements set forth by the Bank of Russia.

E.V. ZAICHIKOVA
Partner
Ernst & Young Vneshaudit LLC

22 March 2017

Details of the audited entity

Name: National Settlement Depository
Record made in the State Register of Legal Entities 30 August 2002, State Registration Number 1027739132563 series 77 No. 007811464.
Address: Russia 105066, Moscow, Spartakovskaya str., 12.

Details of the auditor

Name: Ernst & Young Vneshaudit LLC
Record made in the State Register of Legal Entities on 4 February 2016, State Registration Number 1167746123478.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young Vneshaudit LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young Vneshaudit LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050953.

NATIONAL SETTLEMENT DEPOSITORY

Consolidated Statement of Comprehensive Income for the year ended 31 December 2016 (in thousands of Russian Rubles)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
Fee and commission income	5	4 011 039	3 642 304
Interest income	6	1 108 868	2 713 352
Net gain from operations with derivatives at fair value through profit or loss	7	312 422	1 012 818
Net gain from operations with securities at fair value through profit or loss	8	1 403 053	787 248
Net gain/(loss) from foreign exchange transactions		6 652	(18 339)
Other income	9	35 617	40 726
Operating income		6 877 651	8 178 109
Personnel expenses	10	(1 544 554)	(1 397 892)
Administrative and other operating expenses	11	(1 049 873)	(899 281)
Commission expenses	12	(578 964)	(321 887)
Profit before tax		3 704 260	5 559 049
Income tax expense	13	(731 496)	(1 121 099)
Net profit		2 972 764	4 437 950
Attributable to:			
Equity holders of the Parent		2 972 764	4 437 949
Non-controlling interest		–	1
Total comprehensive income		2 972 764	4 437 950



Chairman of the Executive Board
E.V. Astanin

22 March 2017
Moscow



Chief Accountant
I.E. Veremeenko

22 March 2017
Moscow

NATIONAL SETTLEMENT DEPOSITORY

Consolidated Statement of Financial Position at 31 December 2016

(in thousands of Russian Rubles)

	Notes	31 December 2016	31 December 2015
ASSETS			
Cash and cash equivalents	14	97 964 940	120 012 198
Financial assets at fair value through profit or loss	15	11 120 158	6 183 563
Due from banks	16	4 563 722	2 362 223
Property and equipment	17	2 833 637	2 847 754
Intangible assets	17	1 826 164	955 045
Current tax prepayments		8 966	363 391
Deferred tax assets	13	47 479	77 755
Other assets	18	488 687	411 704
Total assets		118 853 753	133 213 633
LIABILITIES			
Balances of market participants	19	104 394 974	114 021 416
Distributions payable to holders of securities	20	2 952 276	6 138 415
Other liabilities	21	809 595	716 591
Total liabilities		108 156 845	120 876 422
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		3 531	22 040
Retained earnings		7 542 345	9 164 139
Total equity		10 696 908	12 337 211
Total liabilities and equity		118 853 753	133 213 633

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

NATIONAL SETTLEMENT DEPOSITORY

Consolidated Statement of Cash Flows for the year ended 31 December 2016

(in thousands of Russian Rubles)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES:			
Profit before tax		3 704 260	5 559 049
Adjustments for:			
Depreciation of property and equipment and amortisation of intangible assets	11, 17	366 676	307 074
Net change in fair value of financial assets and liabilities at fair value through profit or loss		12 163	(264 042)
Net change of other accrued income/expense		(675)	(36 706)
Net change in payments based on the shares of the parent company	10	(1 321)	11 676
Net change in interest accruals		–	7 737
Unrealized losses on foreign exchange operations		4 043	3 205
Net (gain)/loss on disposal of property and equipment and intangible assets	11	(942)	561
Changes in operating assets and liabilities:			
(Increase)/decrease in operating assets:			
Financial assets at fair value through profit or loss		(4 948 758)	332 150
Due from banks		(2 739 304)	(281 159)
Other assets		(9 530)	8 990
Increase/(decrease) in operating liabilities:			
Balances of market participants		4 464 755	(50 786 839)
Distributions payable to holders of securities		(3 490 123)	(362 343)
Other liabilities		18 246	46 218
Cash flows used in operating activities before taxation		(2 620 510)	(45 454 429)
Income tax paid		(346 795)	(1 452 008)
Cash flows used in operating activities		(2 967 305)	(46 906 437)

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

NATIONAL SETTLEMENT DEPOSITORY

Consolidated Statement of Cash Flows for the year ended 31 December 2016

(in thousands of Russian Rubles)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES:			
Purchase of intangible assets		(1 039 779)	(596 994)
Purchase of property and equipment		(177 138)	(161 045)
Proceeds from disposal of property and equipment and intangible assets		986	2
Purchase of investments available-for-sale		–	(1 916)
Disposal of subsidiaries, net of cash disposed		–	(18)
Cash flows used in investing activities		(1 215 931)	(759 971)
CASH FLOWS USED IN FINANCING ACTIVITIES:			
Dividends paid shareholders		(4 611 746)	(3 389 935)
Dividends paid non-controlling interest		–	(10)
Cash flows used in financing activities		(4 611 746)	(3 389 945)
Effect of changes in foreign exchange rates on cash and cash equivalents		(13 252 276)	25 715 597
Net increase in cash and cash equivalents		(22 047 258)	(25 340 756)
Cash and cash equivalents at the beginning of the period	14	120 012 198	145 352 954
Cash and cash equivalents at the end of the period	14	97 964 940	120 012 198

Interest received by the NSD for the year Ended 31 December 2016 amounted to RUB 1 108 868 thousand (31 December 2015: includes received by its subsidiary RUB 2 721 089 thousand).

NATIONAL SETTLEMENT DEPOSITORY

Consolidated Statement of Changes in Equity for the year ended 31 December 2016

(in thousands of Russian Rubles)

	Share capital	Share premium	Payments based on the shares of the parent company	Retained earnings	Equity attributable to owners of the Parent	Non-controlling interest	Total equity
31 December 2014	1 193 982	1 957 050	33 758	8 092 731	11 277 521	27	11 277 548
Total comprehensive income for the period	–	–	–	4 437 949	4 437 949	1	4 437 950
Dividends declared	–	–	–	(3 389 935)	(3 389 935)	(10)	(3 389 945)
Payments based on the shares of the parent company (Note 10)	–	–	(11 718)	23 394	11 676	–	11 676
Derecognition of non-controlling interest	–	–	–	–	–	(18)	(18)
31 December 2015	1 193 982	1 957 050	22 040	9 164 139	12 337 211	–	12 337 211
Total comprehensive income for the period	–	–	–	2 972 764	2 972 764	–	2 972 764
Dividends declared	–	–	–	(4 611 746)	(4 611 746)	–	(4 611 746)
Payments based on the shares of the parent company (Note 10)	–	–	(18 509)	17 188	(1 321)	–	(1 321)
31 December 2016	1 193 982	1 957 050	3 531	7 542 345	10 696 908	–	10 696 908

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

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Financial Statements for the year ended 31 December 2016 (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 CBR 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 2016 and 31 December 2015, the share of ownership comprised 99,997%. In April 2016 the business name Open Joint-Stock Company Moscow Exchange MICEX-RTS was changes to Public Joint-Stock Company Moscow Exchange MICEX-RTS.

As at 31 December 2016 and 31 December 2015 entities controlled by the Russian Federation together hold less than 50% 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.

Until 16 October 2015 NSD and its subsidiary CJSC "DCC" (hereinafter – the "DCC") was formed NSD Group (hereinafter – the "Group"). As at 16 October 2015 and 31 December 2015, the share of ownership NSD comprised 99,998%.

NSD is located in the Russian Federation.

DCC provides depository services. DCC holds licenses for depository services. 16 October 2015 DCC was liquidated. The relevant record was made in the Unified State Register of Legal Entities. There was no effect on NSD, as all DCC's business operations and assets were transferred to NSD.

As at 31 December 2016, NSD had 486 employees, as at 31 December 2015, NSD and its subsidiary had 480 employees.

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued) (in thousands of Russian Rubles)

2. Basis of preparation

Statement of compliance

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of presentation

These Consolidated 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.

The Group 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, the NSD and its subsidiary 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.

3. Significant accounting policies

Basis for consolidation

Subsidiaries, which are those entities in which the NSD has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the NSD obtains control, and continue to be consolidated until the date that such control ceases. All transactions, balances and unrealized gains on transactions between NSD and its subsidiaries are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the NSD.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the NSD loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

Basis for consolidation (continued)

Acquisition of subsidiaries from parties under common control

Purchases of subsidiaries from parties under common control are accounted for using the acquisition method.

The acquisition cost is measured at fair value calculated as the sum of the acquisition-date fair value of the assets transferred by the NSD, liabilities assumed by the NSD to the former owners of the acquiree, and equity securities issued by the NSD in exchange for control over the acquiree. Acquisition-related costs are recognised in the income statement as incurred.

Goodwill is initially measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the NSD has previously held equity interest in the acquiree, if any, over the fair value of the net amounts of identifiable assets acquired and liabilities assumed at the acquisition date. If, after reassessment, the cost of the acquired identifiable net assets and liabilities assumed at the acquisition date exceeds the sum of the consideration transferred, cost of non-controlling interests in the acquiree and fair value of the acquirer's previously held interest, if any, in the acquiree, such excess is immediately recognised in profit or loss as bargain purchase gain.

Investment in associates

Associates are entities in which the NSD generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the net assets of the associate attributable to the NSD. The NSD's share of its associates' profits or losses is recognised in the Consolidated Statement of Comprehensive Income, and its share of movements in reserves is recognised in other comprehensive income. However, when the NSD's share of losses in an associate equals or exceeds its interest in the associate, the NSD does not recognise further losses, unless the NSD is obliged to make further payments of, or on behalf of, the associate.

Unrealized gains on transactions between the NSD and its associates are eliminated to the extent of the NSD's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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.

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

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 Consolidated Statement of Financial Position when the Group 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.

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 the Group 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 28.

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.

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

Financial assets (continued)

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 to be 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 through the use of 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;
- The Group 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;
- The Group 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.

If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether or not it has retained control of the asset. If the Group has not retained control, the asset is derecognised. Where the Group 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.

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

Financial liabilities (continued)

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 the Group from the issuers of securities on behalf of customers of the Group, for which the Group 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

The Group derecognises financial liabilities when, and only when, the Group'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	14–20%

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 Consolidated Financial Statements for the year ended 31 December 2016 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

Property and equipment (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	5–33%

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 the Group 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 the Group 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, the Group 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, the Group 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.

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

Impairment of tangible and intangible assets (continued)

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

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

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

Taxation

Income tax expense comprises current and deferred tax.

Current income tax

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

Deferred income tax

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

Operating taxes

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

Payments based on the shares of the parent company

The Moscow Exchange Group grants the right to some Group'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 11).

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

Contingencies

Contingent liabilities are not recognised in the Consolidated 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.

Depository activities

The Group 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 the Group's Consolidated Financial Statements. The Group accepts the operational risk on these activities, but Group'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 the Group in the preparation of these financial statements as at year-end are as follows:

	31 December 2016	31 December 2015
RUB / 1 USD	60,6569	72,8827
RUB / 1 EUR	63,8111	79,6972

Adoption of new and revised standards

In the current period, the Group 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 2016.

The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the 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 the Group:

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group.

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

Adoption of new and revised standards (continued)

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group as the Group does not apply the consolidation exception.

Annual improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include, in particular:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

New and revised IFRSs in issue but not yet effective

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

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

New and revised IFRSs in issue but not yet effective (continued)

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost categories. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement. The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

IFRS 9 will also fundamentally change the approach to loan impairment. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The NSD will be required to record an allowance for expected losses for all financial assets not carried at FVPL. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance would be based on the probability of default over the life of the asset.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not required; the effect on the transition date – 1 January 2018 – would be recorded in retained earnings. The adoption of IFRS 9 will have an effect on the classification and measurement of the NSD's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The NSD does not expect significant effect on its equity due to adoption of IFRS 9 impairment requirements, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date.

The NSD does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

New and revised IFRSs in issue but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 Leases).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The NSD does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The NSD does not anticipate that adopting the amendments would have a material impact on its financial statements.

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The NSD is currently evaluating the impact.

Amendments to IFRS 2

The IASB issued amendments to IFRS 2 Share-based Payment in relation to the classification and measurement of share-based payment transactions. The amendments are intended to eliminate diversity in practice, but are narrow in scope and address specific areas of classification and measurement. The amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction;
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations;
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The amendment is effective for annual periods beginning on or after 1 January 2018. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application is permitted. The amendments are not expected to have any impact on the NSD.

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued) (in thousands of Russian Rubles)

3. Significant accounting policies (continued)

New and revised IFRSs in issue but not yet effective (continued)

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance. The temporary exemption permits such entities to continue to apply IAS 39 Financial Instruments: Recognition and Measurement while they defer the application of IFRS 9 until 1 January 2021 at the latest. The overlay approach requires an entity to remove from profit or loss additional volatility that may arise if IFRS 9 is applied with IFRS 4.

The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The amendments are not expected to have any impact on the NSD.

4. Critical accounting judgments and key sources of estimation uncertainty

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

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

Key sources of estimation uncertainty

Impairment of accounts receivable and other assets

The Group regularly reviews its receivables and other assets to assess for impairment. Group's receivables and other assets impairment provisions are established to recognise incurred impairment losses in its portfolio of receivables and other assets.

The Group 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, the NSD estimates changes in future cash flows based on past performance, past counterparty behavior, 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 2016, the total amount of NSD's accounts receivable less allowance for impairment was RUB 387 183 thousand, as at 31 December 2015, the total amount of NSD's and its subsidiary's accounts receivable less allowance for impairment was RUB 315 341 thousand.

As at 31 December 2016 and 31 December 2015, the allowance for impairment of other assets is not produced.

Deferred income tax assets recognition

The recognised deferred tax assets represent amount of income tax which may be recovered through future income tax expenses and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on management expectations that are believed to be reasonable under the circumstances. Refer to Note 13.

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued) (in thousands of Russian Rubles)

5. Fee and commission income

	Year ended 31 December 2016	Year ended 31 December 2015
Depository services	3 234 632	2 962 900
Collateral management services and clearing services	404 151	449 328
Settlement services	253 293	137 547
Sale of technical services	45 467	49 464
Information services	44 544	19 948
Repository services	28 952	18 137
Other services	–	4 980
Total fee and commission income	4 011 039	3 642 304

6. Interest income

	Year ended 31 December 2016	Year ended 31 December 2015
Interest on correspondent and current accounts with other banks	1 017 559	1 793 748
Interest on deposits with the CBR	91 309	792 340
Interest on deposits with other banks	–	127 264
Total interest income	1 108 868	2 713 352

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

In 2016 and 2015, the NSD performed one-day 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 2016	Year ended 31 December 2015
Interest income	1 326 493	639 149
Net gains/(losses) from operations with OFZ	76 560	148 099
Total net gains from operations with securities at fair value through profit or loss	1 403 053	787 248

9. Other income

	Year ended 31 December 2016	Year ended 31 December 2015
Income from lease	28 549	29 094
Write-off of accounts payables	2 587	8 199
Gain on disposal of property and equipment	942	–
Other	3 539	3 433
Total other income	35 617	40 726

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued) (in thousands of Russian Rubles)

10. Personnel expenses

	Year ended 31 December 2016	Year ended 31 December 2015
Personnel expenses except payments based on the shares of the parent company	1 303 880	1 181 268
Payroll related taxes	241 995	204 948
Net change in payments based on the shares of the parent company	(1 321)	11 676
Total personnel expenses	1 544 554	1 397 892

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 2015	2 466 668	46,90
Exercised	(450 791)	46,90
Expired	(765 876)	46,90
Outstanding at 31 December 2015	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

The rights outstanding as at 31 December 2016 reached a maturity date. The weighted average remaining contractual life for the share options outstanding as at 31 December 2015 was 0,22 years. Exercise prices for rights outstanding as at 31 December 2016 were RUB 46,90 (31 December 2015: RUB 46,90).

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued) (in thousands of Russian Rubles)

11. Administrative and other operating expenses

	Year ended 31 December 2016	Year ended 31 December 2015
Maintenance of property and equipment and intangible assets	312 087	256 740
Depreciation of property and equipment (Note 17)	191 211	144 152
Amortisation of intangible assets (Note 17)	175 465	162 922
Taxes (other than income tax)	118 166	105 762
Professional services	78 395	61 899
Communication and telecommunication	43 493	34 426
Corporate events	27 112	21 574
Insurance	27 081	24 009
Business trip expenses	13 542	15 824
Write-off of materials	13 236	5 724
Advertising	11 784	21 368
Rent expenses	10 074	15 816
Security	7 797	9 450
Charge of allowances for potential losses	5 657	4 206
Stationery	5 517	4 492
Charity	4 497	4 494
Loss on disposal of property, equipment and intangible assets	—	561
Other	4 759	5 862
Total administrative and other operating expenses	1 049 873	899 281

Professional services comprise consulting, audit and legal services.

12. Commission expenses

	Year ended 31 December 2016	Year ended 31 December 2015
Depository service commissions	334 010	154 579
Negative interest rates expenses on bank cash accounts	98 760	12 101
Registrar services	76 357	84 063
Bank commissions	57 741	56 302
Other	12 096	14 842
Total commission expenses	578 964	321 887

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)

(in thousands of Russian Rubles)

13. Income tax

The Group 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:

	Consolidated Statement of Financial Position		Consolidated Statement of Comprehensive Income	
	31 December 2016	31 December 2015	Year ended 31 December 2016	Year ended 31 December 2015
Tax effect of deductible temporary differences:				
Financial assets at fair value through profit or loss	—	—	—	(32 601)
Property and equipment and intangible assets	—	1 293	(1 293)	(5 947)
Other assets	1 424	1 257	167	682
Other liabilities	85 623	91 194	(5 571)	(4 646)
	87 047	93 744	(6 697)	(42 512)
Tax effect of non-deductible temporary differences:				
Financial assets at fair value through profit or loss	(12 557)	(4 112)	(8 445)	(4 112)
Property and equipment and intangible assets	(22 792)	(11 494)	(11 298)	(348)
Investments accounted for using the equity method	(4 219)	(383)	(3 836)	(383)
	(39 568)	(15 989)	(23 579)	(4 843)
Deferred tax expense			(30 276)	(47 355)
Deferred tax assets	47 479	77 755		

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued) (in thousands of Russian Rubles)

13. Income tax (continued)

Reconciliation of income tax expense and accounting profit for year ended 31 December 2016 and 31 December 2015 is presented below:

	Year ended 31 December 2016	Year ended 31 December 2015
Profit before income tax	3 704 260	5 559 049
Statutory tax rate	20%	20%
Tax at the statutory tax rate (20%)	740 852	1 111 810
Tax effect of income taxed at rates different from the statutory tax rate	(57 618)	(24 330)
Tax effect of non-taxable expenses	50 025	27 110
Deferred tax from previously unrecognised temporary differences of a prior period	—	5 150
Adjustments in respect of current income tax of previous years	(1 763)	1 359
Income tax expense	731 496	1 121 099
Current income tax expense	702 983	1 072 385
Adjustments in respect of current income tax of previous years	(1 763)	1 359
Deferred taxation movement due to origination and reversal of temporary differences	30 276	47 355
Income tax expense	731 496	1 121 099

Deferred tax assets are as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
As at 1 January	77 755	125 110
Change in deferred income tax balances recognised in profit or loss	(30 276)	(47 355)
As at 31 December	47 479	77 755

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued) (in thousands of Russian Rubles)

14. Cash and cash equivalents

	31 December 2016	31 December 2015
Balances with the CBR	2 691 974	18 071 735
Balances with banks:		
– Russian Federation	40 730 232	31 946 688
– Organization for Economic Cooperation and Development (OECD) countries	54 499 921	69 940 711
– other countries	40 123	48 307
Cash on hand	2 690	4 757
Total cash and cash equivalents	97 964 940	120 012 198

As at 31 December 2016, the NSD has balances with eight counterparties (31 December 2015: ten counterparties) each of which is greater than 10% of equity. The total aggregate amount of these balances is 96 364 823 RUB thousand or 98% of total cash and cash equivalents as at 31 December 2016 (31 December 2015: RUB 119 079 828 thousand or 99% of total cash and cash equivalents).

15. Financial assets at fair value through profit or loss

	31 December 2016	31 December 2015
Bonds issued by the Russian Federation	11 120 158	6 183 563
Total financial assets at fair value through profit or loss	11 120 158	6 183 563

As at 31 December 2016, financial assets at fair value through profit or loss of RUB 9 115 781 thousand (31 December 2015: RUB 6 183 113 thousand) were placed on designated deposit account "Blocked securities" intended for the purposes of lombard lending from the CBR.

16. Due from banks

	31 December 2016	31 December 2015
Account of clearing collective collateral (Guarantee Fund)	3 000	3 000
Other	4 560 722	2 359 223
Total due from banks	4 563 722	2 362 223

Other included blocked correspondent account NSD in Euroclear Bank S.A. / N.V., Brussels foreign securities income owned by the bank–client NSD, got in the sanctions list US / EU.

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)
(in thousands of Russian Rubles)

17. Property and equipment and intangible assets

	Land	Buildings and other real estate	Furniture and equipment	Total property and equipment	Intangible assets	Total
Cost						
31 December 2014	94 139	2 682 812	481 023	3 257 974	818 575	4 076 549
Additions	—	1 398	165 959	167 357	596 994	764 351
Disposals	—	—	(3 827)	(3 827)	(111 213)	(115 040)
31 December 2015	94 139	2 684 210	643 155	3 421 504	1 304 356	4 725 860
Additions	—	—	177 138	177 138	1 047 578	1 224 716
Reclassification to other assets	—	—	—	—	(994)	(994)
Disposals	—	—	(29 337)	(29 337)	—	(29 337)
31 December 2016	94 139	2 684 210	790 956	3 569 305	2 350 940	5 920 245
Accumulated depreciation and impairment						
31 December 2013	—	183 575	249 636	433 211	297 253	730 464
Charge for the period (Note 11)	—	53 679	90 473	144 152	162 922	307 074
Written off in disposal	—	—	(3 613)	(3 613)	(110 864)	(114 477)
31 December 2015	—	237 254	336 496	573 750	349 311	923 061
Charge for the period (Note 11)	—	53 684	137 527	191 211	175 465	366 676
Written off in disposal	—	—	(29 293)	(29 293)	—	(29 293)
31 December 2016	—	290 938	444 730	735 668	524 776	1 260 444
Net book value						
31 December 2015	94 139	2 446 956	306 659	2 847 754	955 045	3 802 799
31 December 2016	94 139	2 393 272	346 226	2 833 637	1 826 164	4 659 801

Intangible assets include computer software, trademarks and licenses.

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued) (in thousands of Russian Rubles)

17. Property and equipment and intangible assets (continued)

As at 31 December 2016, the NSD's historical cost of fully depreciated property and equipment amounts to RUB 96 541 thousand, as at 31 December 2015, the Group's historical cost of fully depreciated property and equipment amounts to RUB 93 184 thousand).

As at 31 December 2016, the NSD's historical cost of fully depreciated intangible assets amounts to RUB 155 801 thousand, as at 31 December 2015, the Group's historical cost of fully depreciated intangible assets amounts to RUB 81 014 thousand.

18. Other assets

	31 December 2016	31 December 2015
Other financial assets:		
Services and other accounts receivable	394 302	321 022
Available-for-sale investments	9 233	9 233
Less allowance for impairment	(7 119)	(5 681)
Total other financial assets	396 416	324 574
Other non-financial assets:		
Prepaid expenses	85 743	67 866
Tax receivable other than income tax	6 528	19 264
Total other assets	488 687	411 704

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

	Year ended 31 December 2016	Year ended 31 December 2015
Beginning of the period	5 681	3 453
Net charge for the period (Note 11)	5 657	4 206
Write-offs	(4 219)	(1 978)
End of the period	7 119	5 681

19. Balances of market participants

	31 December 2016	31 December 2015
Balances of credit institutions	100 027 438	106 366 712
Balances of financial companies	4 367 357	7 654 598
Balances of CBR	179	106
Total balances of market participants	104 394 974	114 021 416

As at 31 December 2016 NSD's balances of market participants in the amount of RUB 89 390 321 thousand (86 %), as at 31 December 2015 the Group's balances of market participants in the amount of RUB 82 491 182 thousand (72%)) related to 10 market participants which is a significant concentration.

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued) (in thousands of Russian Rubles)

20. Distributions payable to holders of securities

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

21. Other liabilities

	31 December 2016	31 December 2015
Other financial liabilities:		
Payroll settlements	450 709	422 066
Payables for services	92 379	47 465
Other	74	2 697
Total other financial liabilities	543 162	472 228
Other non-financial liabilities:		
Advances received for depository services	245 449	229 095
Taxes payable other than income tax	20 984	15 268
Total other liabilities	809 595	716 591

22. Share capital and share premium

As at 31 December 2016 and 31 December 2015 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 2016 and 31 December 2015 the share capital includes inflation adjustment amounted to RUB 1 193 982 thousand.

Share premium represents an excess of the sale price of NSD's share over their par value. Share premium was formed as a result of merge 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 2016, the NSD declared and paid dividends on ordinary share for 2015, in the which amounted to RUB 4 611 746 thousand (31 December 2015: declared dividends on ordinary share for 2014 in the amount of RUB 3 389 935 thousand). Dividends for 2015 declared during the year ended 31 December 2016 is RUB 3 906,02 per ordinary share (31 December 2015: 2 871,18 per ordinary share).

The NSD's distributable reserves are limited to the amount of reserves reported in the statutory financial statements of the 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 the share capital NSD according to RAS. As at 31 December 2016 and 31 December 2015 reserve fund amounted to RUB 177 101.

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued) (in thousands of Russian Rubles)

24. Commitments and contingencies

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

	31 December 2016	31 December 2015
Less than 1 year	8 302	7 852
More than 1 year but less than 5 years	–	1 765
Total operating lease liabilities	8 302	9 617

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

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

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

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.

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

As at 31 December 2016 management believes that its interpretation of the relevant legislation is appropriate and that the NSD's tax, currency and customs positions will be sustained.

Insurance – The 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, 2015: USD 65 million).

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (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 Consolidated Statement of Financial Position are the following amounts that arose on transactions with key management personnel:

	31 December 2016	31 December 2015
Other liabilities	84 052	58 996
Payments based on the shares of the parent company	3 531	22 040

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

	Year ended 31 December 2016	Year ended 31 December 2015
Short-term employee benefits except payments based on the shares of the parent company	133 586	113 573
Payments based on the shares of the parent company	616	11 676
Long-term employee benefits	6 527	5 541
Total remuneration of key management personnel	140 729	130 790

Transactions with government-related parties

NSD is a subsidiary of the Moscow Exchange holding 99,997% shares as at 31 December 2016 and 31 December 2015.

As at 31 December 2016 and at 31 December 2015 the entities controlled by the Russian Federation together hold less than 50% of voting shares of Moscow Exchange. Accordingly, as at 31 December 2016 the Russian Federation exercises significant influence over NSD.

The NSD considers government-related entities as related parties if Russian Federation has direct or indirect control or significant influence over the entity. Transactions with state-related entities constitute a significant part of the NSD's operations. Such transactions include settlement services, attracting deposits, placement of funds with government-related banks, as well as bonds issued by the Russian Federation, property and equipment lease, information and technical services.

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued) (in thousands of Russian Rubles)

26. Capital management

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

The capital structure of the 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 the 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, the 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 the NSD were as follows:

	Equity		Mandatory equity		Capital adequacy ratio	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
NSD	8 764 280	11 274 600	4 000 000	4 000 000	22,4	25,2

The 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.

The 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.

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (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 2016, by the level in the fair value hierarchy into which the fair value measurement is categorized:

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

Financial assets and liabilities measured at fair value at 31 December 2015, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	31 December 2015		
	Level 1	Level 3	Total
Financial assets at fair value through profit or loss	6 183 563	–	6 183 563
Investments available-for-sale	–	9 233	9 233

The following table shows reconciliation for the year ended 31 December 2016 and 31 December 2015, for fair value measurements in Level 3 of the fair value hierarchy:

	Investments available-for-sale
Balance at 31 December 2014	7 317
Level 3 securities purchased	1 916
Balance at 31 December 2015	9 233
Balance at 31 December 2016	9 233

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

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued) (in thousands of Russian Rubles)

28. Risk management policies

Risk management is an integral part of the NSD's activities. NSD distinguishes the following significant risks: credit, market, liquidity, operational, strategic, legal and reputational. 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 the NSD's risk management policies in relation to each significant risk is as follows.

Credit risk

The NSD uses credit risk management approaches under requirements of the Russian regulators, based on the best international practices and standards. The 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 the 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 the NSD's development strategy.

The objectives of the 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 the NSD through implementation of more precise risk measures;
- maintain stability during the introduction of new complex products and services.

The 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. The NSD has developed and constantly improves an internal ratings system, providing a prudent assessment of its counterparties and the level of accepted credit risk.

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

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

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

As at December 31, 2016 included into other assets are overdue receivables of RUB 394 302 thousand (December 31, 2015: RUB 321 022 thousand).

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

As at 31 December 2016 and 2015, balances with the CBR are classified at the sovereign credit rating level of the Russian Federation.

Tables below do not include equity instruments.

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)

(in thousands of Russian Rubles)

28. Risk management policies (continued)

Credit risk (continued)

The following table details the credit ratings of other financial assets held by the NSD 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

As at 31 December 2015:

	AA	A	BBB	less BBB–	Not rated	31 December 2015 Total
FINANCIAL ASSETS:						
Cash and cash equivalents	22 615 296	47 373 648	13 246 033	36 772 400	64	120 007 441
Financial assets at fair value through profit or loss	–	–	6 183 563	–	–	6 183 563
Due from banks	2 359 223	–	3 000	–	–	2 362 223
Other financial assets	13 073	313	47 481	142 066	112 408	315 341

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)

(in thousands of Russian Rubles)

28. Risk management policies (continued)

Geographical concentration

The geographical concentration of assets and liabilities NSD 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

As at 31 December 2015:

	Russian Federation	OECD countries	Non- OECD countries	31 December 2015 Total
FINANCIAL ASSETS:				
Cash and cash equivalents	50 023 180	69 940 711	48 307	120 012 198
Financial assets at fair value through profit or loss	6 183 563	–	–	6 183 563
Due from banks	3 000	2 359 223	–	2 362 223
Other financial assets	307 524	16 384	666	324 574
Total financial assets	56 517 267	72 316 318	48 973	128 882 558
FINANCIAL LIABILITIES:				
Balances of market participants	112 371 418	1 120 302	529 696	114 021 416
Distributions payable to holders of securities	5 950 387	185 849	2 179	6 138 415
Other financial liabilities	440 996	31 038	194	472 228
Total financial liabilities	118 762 801	1 337 189	532 069	120 632 059

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (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 unfavorable and crisis situations, ensuring an optimal structure of assets in accordance with the resource base, taking into account the maturities of fund sources and their volumes when allocating assets to financial instruments.

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

In this respect the 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 discount 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, the 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 the NSD has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms. In the tables below the financial assets and liabilities are presented on a discounted basis and are based on their expected cash flows.

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued) (in thousands of Russian Rubles)

28. Risk management policies (continued)

Liquidity risk (continued)

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

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Maturity undefined	31 December 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	–	–	–	4 563 722	–	4 563 722
Other financial assets	387 183	–	–	–	9 233	396 416
Total financial assets	109 472 281	–	–	4 563 722	9 233	114 045 236
FINANCIAL LIABILITIES:						
Balances of market participants	104 394 974	–	–	–	–	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	107 437 473	355 195	88 446	9 298	–	107 890 412
Liquidity gap	2 034 808	(355 195)	(88 446)	4 554 424	9 233	
Cumulative liquidity gap	2 034 808	1 679 613	1 591 167	6 145 591	6 154 824	

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued) (in thousands of Russian Rubles)

28. Risk management policies (continued)

Liquidity risk (continued)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Maturity undefined	31 December 2015 Total
FINANCIAL ASSETS						
Cash and cash equivalents	120 012 198	–	–	–	–	120 012 198
Financial assets at fair value through profit or loss	6 183 563	–	–	–	–	6 183 563
Due from banks	–	–	–	2 362 223	–	2 362 223
Other financial assets	315 341	–	–	–	9 233	324 574
Total financial assets	126 511 102	–	–	2 362 223	9 233	128 882 558
FINANCIAL LIABILITIES:						
Balances of market participants	114 021 416	–	–	–	–	114 021 416
Distributions payable to holders of securities	6 138 415	–	–	–	–	6 138 415
Other financial liabilities	42 118	359 022	65 538	5 550	–	472 228
Total financial liabilities	120 201 949	359 022	65 538	5 550	–	120 632 059
Liquidity gap	6 309 153	(359 022)	(65 538)	2 356 673	9 233	
Cumulative liquidity gap	6 309 153	5 950 131	5 884 593	8 241 266	8 250 499	

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.

The 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.

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued) (in thousands of Russian Rubles)

28. Risk management policies (continued)

Interest rate risk (continued)

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

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

The impact of changes in fair value of financial assets on the income, losses and equity is conducted based on the interest rates existing as at December 31, 2016 and December 31, 2015, and a reasonably possible changes of 150 bp. Corresponding negative and positive results shown in the following table:

	At 31 December 2016		At 31 December 2015	
	Net profit	Equity	Net profit	Equity
150 bp rise	(131 427)	(131 427)	(50 786)	(50 786)
150 bp fall	134 114	134 114	51 586	51 586

Currency risk

Currency risk is the risk of changes in financial instruments value due to the exchange rates fluctuations. The financial state and cash flows of the NSD are subject to the influence of such fluctuations. The main source of currency risk are open foreign currency positions. The NSD maintain control over the currency risk through monitoring of open foreign currency positions.

As at 31 December 2016, the 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)	

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued) (in thousands of Russian Rubles)

28. Risk management policies (continued)

Currency risk (continued)

As at 31 December 2015, the NSD had the following positions in different currencies:

	RUB	USD	EUR	Other currencies	31 December 2015 Total
FINANCIAL ASSETS:					
Cash and cash equivalents	41 356 226	61 241 932	17 301 126	112 914	120 012 198
Financial assets at fair value through profit or loss	6 183 563	–	–	–	6 183 563
Due from banks	83 920	2 278 303	–	–	2 362 223
Other financial assets	324 566	–	8	–	324 574
Total financial assets	47 948 275	63 520 235	17 301 134	112 914	128 882 558
FINANCIAL LIABILITIES:					
Balances of market participants	34 126 244	62 496 437	17 291 078	107 657	114 021 416
Distributions payable to holders of securities	5 112 154	1 020 980	4 926	355	6 138 415
Other financial liabilities	441 094	6 783	24 350	1	472 228
Total financial liabilities	39 679 492	63 524 200	17 320 354	108 013	120 632 059
Open position	8 268 783	(3 965)	(19 220)	4 901	

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

	At 31 December 2016		At 31 December 2015	
	USD	EUR	USD	EUR
	23%	23%	26%	26%
23% ruble appreciation (31 December 2015, 2015: 26%)	858	4 895	825	3 998
23% ruble depreciation (31 December 2015: 26%)	(858)	(4 895)	(825)	(3 998)

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 the NSD's assets and liabilities are actively managed. Additionally the NSD's financial position may vary at the time that any actual market movement occurs. For example, the 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.

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued) (in thousands of Russian Rubles)

28. Risk management policies (continued)

Limitations of sensitivity analysis (continued)

Other limitations of the above sensitivity analysis include the use of hypothetical market movements to demonstrate potential risk that only represent the 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 the NSD, approved by the 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.

The 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 Consolidated Financial Statements for the year ended 31 December 2016 (continued) (in thousands of Russian Rubles)

28. Risk management policies (continued)

Operational risk (continued)

Elimination of manual data processing is one of the ways to mitigate operating risk. The NSD constantly seeks to ensure maximum possible automated processes of information acceptance, transfer and processing. To minimize human errors the 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 the NSD in performing their assigned functions.

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

Strategic risk

Strategic risk is the risk of losses arising from deficiencies in the decisions that determine the development strategy NSD and the procedure for its implementation, expressed in the absence or inadequate consideration of possible threats, misidentification of promising lines of business, insufficient provision of resources and / or organizational measures necessary to achieve strategic goals NSD.

The source of strategic risk NSD is:

- mistakes in strategic planning due to insufficient consideration of possible dangers and threats;
- mistakes made during the planning and implementation of strategic projects;
- non-availability of resources to achieve strategic objectives NSD.

The following indicators are used in assessing strategic risk:

- identification of cases of non-compliance with the approved NSD's Development Strategy;
- identification of cases of non-compliance with the functional strategies of certain NSD's activities;
- increase (decrease) in cases of violation of established thresholds for indicators of monitoring the implementation of the strategy;
- identification of significant deviations in the timing and / or budget for the implementation of strategic projects;
- the increase (reduction) in the number of failures after the completion of the strategic project, indicating the insufficient quality of its implementation;
- identification of errors in strategic planning due to insufficient consideration of possible dangers and threats.

The main method of managing strategic risk is:

- collection and analysis of information on strategic risk events;
- development of control measures aimed at preventing the implementation of strategic risk events;
- evaluation of risk management in strategic projects.

Strategic risk management is carried out in accordance with the Regulation on managing strategic risk and other NSD's internal documents.

NSD maintains reporting on the balanced scorecard, which is prepared and submitted to the NSD's management on a monthly basis. The NSD's management listens to the progress report on the implementation of priority projects (major strategic initiatives) on a monthly basis.

On a quarterly basis, an overall risk assessment of strategic risk management is assessed. The evaluation results are presented to the NSD's management as part of an integrated report on non-financial risk management.

NATIONAL SETTLEMENT DEPOSITORY

Notes to the Consolidated Financial Statements for the year ended 31 December 2016 (continued)

(in thousands of Russian Rubles)

28. Risk management policies (continued)

Legal risk

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

Legal risk management procedures include:

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

Reputational risk

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

29. Disposal of subsidiary

October 16, 2015 NSD lost control of its subsidiary DCC in connection with its liquidation. DCC's contribution to profit for the year amounted to RUB 91 323 thousand.

Disposal of DCC had the following effect on the assets and liabilities at the date of liquidation:

ASSETS	
Cash and cash equivalents	906 626
Total assets	906 626
Net assets	906 626

The following are the cash inflow from disposal of subsidiary:

Cash flows on disposal	
Cash received	906 608
Net cash outflow with the subsidiary	(906 626)
Net cash outflow	(18)