PUBLIC JOINT-STOCK COMPANY
MOSCOW EXCHANGE
MICEX-RTS

Consolidated Financial Statements
For the Year Ended December 31, 2017

MOSCOW EXCHANGE GROUP

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Supervisory Board of Public Joint-Stock Company "Moscow Exchange MICEX-RTS"

Opinion

We have audited the consolidated financial statements of Public Joint-Stock Company "Moscow Exchange MICEX-RTS" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Carrying value of intangible assets and goodwill The measurement of intangible assets and goodwill was determined to be a key audit matter, because management makes complex and subjective judgements over useful life of software and client base, as well as over existence of indicators of goodwill and intangible assets impairment. The carrying values of intangible assets and goodwill are significant for the users of consolidated financial statements. We focused on the following areas: • key assumptions used in determination of useful lives of the Group's intangible assets on initial recognition and subsequently; • capitalisation of software enhancement costs incurred by the Group; • key assumptions used in analysis of whether indications of impairment of intangible assets exist. Information on accounting for intangible assets and goodwill is disclosed in Notes 17 and 18 to the consolidated financial statements, respectively.	We obtained understanding of the management's methodology and process of initial and subsequent measurement of intangible assets and estimation of their useful lives. These procedures include understanding of relevant controls over the estimation and annual review of intangible assets useful lives, capitalisation of software costs, analysis of indications of impairment, assessment of recoverable amounts of cash-generating units (the "CGU's"), and recognition of impairment of intangible assets. We checked that management's estimates in respect of useful lives of assets are in line with the historical usage of similar assets and consistent with general industry practices. We checked that the authorised changes to the assets' useful lives were applied prospectively to all assets within the same type. On a sample basis, we assessed the nature of costs capitalised as part of intangible assets during the reporting period and tested that software enhancement costs meet capitalisation criteria. As part of assessment of recoverability of goodwill and client base, we checked the allocation of these assets to the appropriate CGU. We reviewed the management's analysis in respect of existence of indications of impairment. We checked the calculation of the recoverable amount of each CGU performed by the Group's management, and challenged key assumptions and judgements used in future cash flows forecasts and sensitivity of recoverable amount to changes in key assumptions. In particular, we focused on analysis of the value in use, projected cash flows, and historical accuracy of management forecasts against actual results. In certain cases, our accounting estimates were different from the management's estimates. This was caused, inter alia, by inherent uncertainty about the future events and conditions which are disclosed in consolidated financial statements and did not have material effects on these consolidated financial statements. We checked completeness and accuracy of disclosures in the consolidated financial statements, and their compliance with IFRS.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Information Technology systems and related controls We focused on this area because functioning of the financial accounting and reporting systems are reliant on integrity of complex information technology (the "IT") systems, and on the effectiveness of related control procedures. There is a risk that automated accounting procedures and IT related manual controls are not properly designed or operating ineffectively. We focused on testing of trading and clearing systems, as the most significant proportion of revenue is recognised based on automated data generated by these systems.	We assessed the effectiveness of general IT controls. We tested design and operating effectiveness controls over IT systems which support automatic financial accounting and reporting processes. In respect of these systems we examined controls over access security, change management, and operation of IT systems and identified key general IT controls implemented by the management which address risks of material misstatement of the Group's financial statements. In certain cases based on results of our procedures, we identified certain deficiencies in general IT controls. However, the combination of tests of compensating controls and direct substantive testing performed provided us with sufficient evidence to rely on the Group's IT systems for the purposes of our audit.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report, but does not include the consolidated financial statements and our auditor's report thereon. The Annual report is expected to be made available to us after the date of this auditor's report.

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

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

Other Matter

The consolidated financial statements of the Group for the year ended December 31, 2016, were audited by another auditor, who expressed an unmodified opinion on those financial statements on March 2, 2017.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRSs"), 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.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, which constitute the key audit matters included herein.

Neklyudov Sergei Vyacheslavovich
Engagement partner

Deloitte & Touche

2 March 2018

The Entity: Public Joint-Stock Company "Moscow Exchange MICEX-RTS"

Primary State Registration Number: 1027739387411, record made in the State Register of Legal Entities on 16.10.2002.

Address: Russia 125009, Moscow, Bolshoy Kislovsky per., 13

Audit Firm: ZAO "Deloitte & Touche CIS"

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

Primary State Registration Number: 1027700425444

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

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

MOSCOW EXCHANGE GROUP

Consolidated Statement of Profit or Loss for the Year Ended December 31, 2017
(in millions of Russian rubles)

	Notes	Year ended December 31, 2017	Year ended December 31, 2016
Fee and commission income	4	21 207,6	19 797,6
Interest and other finance income	5	16 040,2	22 730,6
Interest expense	6	(829,8)	(118,5)
Net gain on financial assets available-for-sale		1 015,8	1 425,3
Foreign exchange gains less losses	7	1 059,1	(342,4)
Other operating income		46,0	74,6
Operating Income		**38 538,9**	**43 567,2**
Administrative and other operating expenses	8	(7 278,9)	(6 312,3)
Personnel expenses	9	(6 152,9)	(5 947,1)
Operating Profit before Tax		**25 107,1**	**31 307,8**
Income tax expense	10	(4 851,9)	(6 125,2)
Net Profit		**20 255,2**	**25 182,6**
Attributable to:			
Equity holders of the parent		20 265,7	25 178,1
Non-controlling interest		(10,5)	4,5
Earnings per share			
Basic earnings per share, rubles	24	9,02	11,22
Diluted earnings per share, rubles	24	8,98	11,16

Chairman of the Executive Board

Afanasiev A.K.

March 2, 2018
Moscow

Chief Financial Officer,
Executive Board Member
Lapin M.V.

March 2, 2018
Moscow

The notes 1-31 form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income for the Year Ended December 31, 2017
(in millions of Russian rubles)

	Notes	Year ended December 31, 2017	Year ended December 31, 2016
Net profit		**20 255,2**	**25 182,6**
Other comprehensive income that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(1,2)	(26,6)
Net income resulting from revaluation of investments available-for-sale		1 323,9	1 686,7
Net gain on investments available-for sale reclassified to profit or loss		(1 015,8)	(1 425,3)
Income tax relating to items that may be reclassified		(61,6)	(52,3)
Other comprehensive income that may be reclassified subsequently to profit or loss		**245,3**	**182,5**
Total comprehensive income		**20 500,5**	**25 365,1**
Attributable to:			
Equity holders of the parent		20 515,1	25 378,1
Non-controlling interest		(14,6)	(13,0)
Total comprehensive income		**20 500,5**	**25 365,1**

The notes 1-31 form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position as at December 31, 2017
(in millions of Russian rubles)

	Notes	December 31, 2017	December 31, 2016
ASSETS			
Cash and cash equivalents	11	273 248,6	380 516,6
Financial assets at fair value though profit or loss	12	413,6	0,4
Due from financial institutions	13	63 606,9	63 842,7
Central counterparty financial assets	14	2 430 083,8	1 733 263,8
Investments available-for-sale	15	215 132,2	218 496,2
Property and equipment	16	6 636,2	7 706,4
Intangible assets	17	18 307,9	18 357,9
Goodwill	18	15 971,4	15 971,4
Current tax prepayments		306,8	51,9
Deferred tax asset	10	243,4	1 776,5
Other assets	19	3 818,9	1 954,1
TOTAL ASSETS		**3 027 769,7**	**2 441 937,9**
LIABILITIES			
Balances of market participants	20	466 860,2	574 590,1
Central counterparty financial liabilities	14	2 430 083,8	1 733 263,8
Distributions payable to holders of securities		2 507,8	2 952,3
Margin account		384,6	-
Current tax payables		-	990,5
Deferred tax liability	10	2 943,3	3 165,6
Other liabilities	21	3 711,2	3 592,0
TOTAL LIABILITIES		**2 906 490,9**	**2 318 554,3**
EQUITY			
Share capital	22	2 495,9	2 498,1
Share premium	22	32 105,5	32 286,2
Treasury shares	22	(1 908,1)	(2 271,9)
Foreign currency translation reserve		(18,5)	(21,4)
Investments revaluation reserve		1 357,0	1 110,5
Share-based payments		524,0	413,1
Retained earnings		86 546,4	89 177,8
Total equity attributable to owners of the parent		**121 102,2**	**123 192,4**
Non-controlling interest		176,6	191,2
TOTAL EQUITY		**121 278,8**	**123 383,6**
TOTAL LIABILITIES AND EQUITY		**3 027 769,7**	**2 441 937,9**

Consolidated Statement of Cash Flows for the Year Ended December 31, 2017
(in millions of Russian rubles)

	Notes	Year ended December 31, 2017	Year ended December 31, 2016
CASH FLOWS FROM / (USED IN) OPERATING ACTIVITIES:			
Profit before tax		25 107,1	31 307,8
Adjustments for:			
Depreciation and amortisation charge	8	2 952,5	2 294,3
Net change in deferred commission income		150,6	(12,5)
Revaluation of derivatives		(407,3)	-
Share-based payment expense	9	267,9	255,3
Unrealized loss on foreign exchange operations		16,0	151,7
Gain on disposal of investments available-for-sale		(1 015,8)	(1 425,3)
Net change in interest accruals		(1 573,4)	764,4
Net loss on disposal of property and equipment and intangible assets		60,9	9,5
Impairment of investments available-for-sale		11,6	-
Impairment of intangible assets	8	15,0	-
Impairment of other assets	19	8,8	2,8
Loss on disposal of assets held for sale	8	-	52,4
Changes in operating assets and liabilities:			
(Increase)/decrease in operating assets:			
Due from financial institutions		(2 697,4)	(30 590,7)
Financial assets at fair value through profit or loss		0,4	-
Central counterparty financial assets		(711 775,2)	(1 214 754,5)
Other assets		(1 734,4)	(152,6)
Increase/(decrease) in operating liabilities:			
Balances of market participants		(127 231,6)	(429 489,5)
Central counterparty financial liabilities		711 775,2	1 214 754,5
Distributions payable to holders of securities		(444,5)	(3 186,1)
Margin account		384,6	(417,7)
Other liabilities		279,1	(132,3)
Cash flows used in operating activities before taxation		(105 849,9)	(430 568,5)
Income tax paid		(4 848,2)	(8 720,9)
Cash flows used in operating activities		**(110 698,1)**	**(439 289,4)**

Consolidated Statement of Cash Flows for the Year Ended December 31, 2017 (Continued)
(in millions of Russian rubles)

	Notes	Year ended December 31, 2017	Year ended December 31, 2016
CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES:			
Purchase of investments available-for-sale		(162 317,9)	(183 585,0)
Proceeds from disposal of investments available-for-sale		165 877,7	116 623,9
Purchase of property and equipment and intangible assets		(2 102,1)	(3 548,3)
Proceeds from disposal of property and equipment and intangible assets		29,2	5,3
Proceeds from sale of investments in associates		-	34,2
Disposal of subsidiaries, net of cash disposed	8	-	46,5
Cash flows from / (used in) investing activities		**1 486,9**	**(70 423,4)**
CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES:			
Dividends paid		(22 897,1)	(15 994,8)
Uncalled dividends (paid) / returned		(162,1)	162,3
Sale of treasury shares		49,5	355,1
Acquisition of non-controlling interest in subsidiaries		-	(5,5)
Acquisition of treasury shares		-	(236,9)
Cash flows used in financing activities		**(23 009,7)**	**(15 719,8)**
Effect of changes in foreign exchange rates on cash and cash equivalents		24 952,9	(85 847,9)
Net decrease in cash and cash equivalents		**(107 268,0)**	**(611 280,5)**
Cash and cash equivalents, beginning of the year	11	**380 516,6**	**991 797,1**
Cash and cash equivalents, end of the year	11	**273 248,6**	**380 516,6**

Interest received by the Group during the year ended December 31, 2017, amounted to RUB 14 474,2 million (December 31, 2016: RUB 23 497,0 million).

Interest paid by the Group during the year ended December 31, 2017, amounted to RUB 832,3 million (December 31, 2016: RUB 116,0 million).

MOSCOW EXCHANGE GROUP

Consolidated Statement of Changes in Equity for the Year Ended December 31, 2017
(in millions of Russian rubles)

	Share capital	Share premium	Treasury shares	Invest-ments revaluation reserve	Share-based payments	Foreign currency translation reserve	Reserves relating to assets held for sale	Retained earnings	Total equity attributable to owners of the parent	Non-controlling interest	Total equity
December 31, 2015	**2 498,1**	**32 471,1**	**(2 921,8)**	**901,4**	**504,6**	**(16,5)**	**(72,1)**	**79 991,0**	**113 355,8**	**253,8**	**113 609,6**
Net profit	-	-	-	-	-	-	-	25 178,1	25 178,1	4,5	25 182,6
Other comprehensive income	-	-	-	209,1	-	(4,9)	(4,2)	-	200,0	(17,5)	182,5
Total comprehensive income for the year	**-**	**-**	**-**	**209,1**	**-**	**(4,9)**	**(4,2)**	**25 178,1**	**25 378,1**	**(13,0)**	**25 365,1**
Transactions with owners											
Dividends declared (Note 23)	-	-	-	-	-	-	-	(15 994,7)	(15 994,7)	(0,1)	(15 994,8)
Share-based payments	-	(99,9)	801,8	-	(91,5)	-	-	-	610,4	-	610,4
Repurchase of treasury shares	-	(85,0)	(151,9)	-	-	-	-	-	(236,9)	-	(236,9)
Sale of business in Ukraine	-	-	-	-	-	-	76,3	-	76,3	(40,6)	35,7
Acquisition of non-controlling interest	-	-	-	-	-	-	-	3,4	3,4	(8,9)	(5,5)
Total transactions with owners	**-**	**(184,9)**	**649,9**	**-**	**(91,5)**	**-**	**76,3**	**(15 991,3)**	**(15 541,5)**	**(49,6)**	**(15 591,1)**
December 31, 2016	**2 498,1**	**32 286,2**	**(2 271,9)**	**1 110,5**	**413,1**	**(21,4)**	**-**	**89 177,8**	**123 192,4**	**191,2**	**123 383,6**
Net profit	-	-	-	-	-	-	-	20 265,7	20 265,7	(10,5)	20 255,2
Other comprehensive income	-	-	-	246,5	-	2,9	-	-	249,4	(4,1)	245,3
Total comprehensive income for the year	**-**	**-**	**-**	**246,5**	**-**	**2,9**	**-**	**20 265,7**	**20 515,1**	**(14,6)**	**20 500,5**
Transactions with owners											
Dividends declared (Note 23)	-	-	-	-	-	-	-	(22 897,1)	(22 897,1)	-	(22 897,1)
Share-based payments	-	(31,0)	211,9	-	110,9	-	-	-	291,8	-	291,8
Cancellation of treasury shares	(2,2)	(149,7)	151,9	-	-	-		-	-	-	-
Total transactions with owners	**(2,2)**	**(180,7)**	**363,8**	**-**	**110,9**	**-**	**-**	**(22 897,1)**	**(22 605,3)**	**-**	**(22 605,3)**
December 31, 2017	**2 495,9**	**32 105,5**	**(1 908,1)**	**1 357,0**	**524,0**	**(18,5)**	**-**	**86 546,4**	**121 102,2**	**176,6**	**121 278,8**

(in millions of Russian rubles, unless otherwise indicated)

1. Organization

Public Joint-Stock Company Moscow Exchange MICEX-RTS (Moscow Exchange) is a stock exchange based in Moscow, Russian Federation. It was established as closed joint-stock company "Moscow Interbank Currency Exchange" (MICEX) in 1992. In December 2011 the company was reorganized into the form of open joint-stock company and renamed to Open Joint-Stock Company MICEX-RTS. In July 2012 the name of the company was changed to Open Joint-Stock Company Moscow Exchange MICEX-RTS. On April 28, 2015 at Annual General Meeting of Shareholders of Moscow Exchange (AGM) the company's new business name as Public Joint Stock Company Moscow Exchange MICEX-RTS was approved to meet revised standards of the Russian Civil Code. The new business name and respective changes to the Charter of Moscow Exchange took effect from May 13, 2015, the day the registration authority recorded new version of the Charter.

The legal address of Moscow Exchange: 13 Bolshoy Kislovsky per., Moscow, the Russian Federation.

Moscow Exchange Group ("the Group") is an integrated exchange structure that provides financial market participants with a full set of competitive trading, clearing, settlement, depository and information services. The Group operates on the following markets: foreign currencies exchange market, government securities and money market, market of derivative financial instruments, equities market, corporate and regional bonds market, commodities market.

Moscow Exchange is the parent company of the Group, which includes the following entities:

Name	Principal activities	December 31, 2017 Voting rights, %	December 31, 2016 Voting rights, %
NCO JSC National Settlement Depository (former NCO CJSC National Settlement Depository) (NSD)	Depository, clearing, repository and settlement services	99,997%	99,997%
Central Counterparty National Clearing Centre (former Bank National Clearing Centre JSC) (NCC)	Banking and clearing operations	100%	100%
OJSC Evraziyskaia Trading System Commodity Exchange (ETS)	Commodities exchange operations	60,82%	60,82%
LLC MICEX Finance (MICEX Finance)	Financial activities	100%	100%
MICEX (CYPRUS) LIMITED	Financial activities	-	100%
MOEX Innovations LLC	Fintech start-ups, financial activities	100%	-
JSC National Mercantile Exchange (former CJSC National Mercantile Exchange) (NAMEX)	Commodities exchange operations	65,08%	65,08%

NSD is the central securities depository of the Russian Federation. NSD is the Russian national numbering agency and the substitute numbering agency for the Commonwealth of Independent States (CIS), authorized to assign the international ISIN, CFI and pre-LEI codes. NSD holds licenses for depository, repository, clearing and settlement operations issued by the Central Bank of Russia (CBR).

1. Organization (continued)

NCC performs functions of a clearing organization and central counterparty on the financial market and holds licenses for clearing operations and banking operations for non-banking credit institutions - central counterparties issued by the CBR. In November 2017 NCC was assigned a new status of a non-banking credit institution. From the moment of foundation in May 2006 to the assignment of a new status, the NCC functioned as a bank with the name Bank National Clearing Centre JSC.

MICEX Finance is established for facilitating financial activities of the Group. MICEX (CYPRUS) LIMITED was engaged with the same activities. In October 2017 MICEX (CYPRUS) LIMITED was liquidated. The Registrar of Companies issued the dissolution certificate.

ETS is a commodity exchange, which has a license for organisation of trading in commodities in Kazakhstan.

MOEX Innovations established in September 2017 concentrates on start-ups development in the fintech sphere.

NAMEX is a commodity exchange operating in Russia.

Moscow Exchange and all subsidiaries are located in Russia, except for ETS which is located in Kazakhstan.

The Group has 1 662 employees as at December 31, 2017 (December 31, 2016: 1 635 employees).

2. Basis of Presentation and Significant Accounting Policies

Statement of compliance

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

Basis of presentation

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

Moscow Exchange and its subsidiaries registered in the Russian Federation maintain their accounting records in accordance with Russian Accounting Standards ("RAS"). Foreign subsidiaries of the Group maintain their accounting records in accordance with the accounting standards of the countries in which they operate. These Consolidated Financial Statements have been prepared on basis of the statutory accounting records and have been adjusted to conform to IFRS.

2. Basis of Presentation and Significant Accounting Policies (continued)

Inflation accounting

The Russian economy was considered hyperinflationary until December 31, 2002. As such, the Group 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 December 31, 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.

Basis for consolidation

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the Group consolidates investees that it controls on the basis of de facto circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised 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 Group.

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 Group 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.

Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

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

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

2. Basis of Presentation and Significant Accounting Policies (continued)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment at least annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the Consolidated Statement of Profit or Loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

Investments in associates

Associates are entities in which the Group 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 Group’s share of net assets of the associate. The Group’s share of its associates’ profits or losses is recognised in profit or loss, and its share of movements in reserves is recognised in other comprehensive income. However, when the Group’s share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

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

Recognition of revenue

Fee and Commission income

Fees and Commissions are recognised when services are provided.

Revenue for services provided over a period is recognised pro rata over the contractual term and consists of commission income on operations with long-term exchange instruments, listing fees, depositary fees, and other.

2. Basis of Presentation and Significant Accounting Policies (continued)

Recognition of interest income

Interest income 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 cash receipts through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Once a financial asset has been written down as a result of impairment, interest income is thereafter recognised using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss.

Interest earned on central counterparty financial assets is presented net of interest expense incurred in respect of the offsetting financial liabilities within gains or losses on financial assets carried at fair value.

Cash and cash equivalents

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

Financial assets

The Group recognises financial assets and liabilities in its Consolidated Statement of Financial Position when it 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 are classified into the following specified categories: financial assets "at fair value through profit or loss" (FVTPL), "held-to-maturity" investments (HTM), "available-for-sale" (AFS) financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss

Financial assets are classified as at FVTPL when the financial asset 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 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 and effective hedging instrument.

2. Basis of Presentation and Significant Accounting Policies (continued)

Financial assets (continued)

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend earned on the financial asset. Fair value is determined in the manner described in Note 27.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. HTM investments are measured at amortised cost using the effective interest method less any impairment.

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 amortised 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 three 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 the Consolidated Statement of Profit or Loss. However, interest calculated using the effective interest method is recognised in profit or loss.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered 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; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- probability that the debtor will enter bankruptcy or financial reorganisation; or
- disappearance of an active market for that financial asset as a result of financial difficulties.

For financial assets carried at amortised 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 the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans, receivables and investments held-to-maturity, where the carrying amount 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.

2. Basis of Presentation and Significant Accounting Policies (continued)

Financial assets (continued)

Derecognition of financial assets

Financial assets are derecognised when the right to receive cash-flows from the assets has expired, or has been transferred, and the Group has transferred substantially all of the risks and rewards of ownership.

Offsetting of financial assets

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Central counterparty financial assets and liabilities

NCC acts as a central counterparty (CCP) and guarantees settlements of certain exchange transactions. Receivables and payables on such deals that may be offset against a clearing member are reported net in accordance with IAS 32 and are recognised in the Consolidated Statement of Financial Position at the net fair value based on daily settlement prices.

Sales and purchases of securities and currency via the CCP are recognised and simultaneously derecognised at the settlement date.

For the products that are marked to market the Group recognises gains and losses on open positions of clearing members on each exchange day. The variation margin is used to settle gains and losses on open positions resulting from market price fluctuations on a daily basis. The variation margin does not comprise collateral as it is a daily offsetting of gains and losses in cash. Products that are marked to market are therefore not reported in the Consolidated Statement of Financial Position.

Receivables under repurchase transactions (repo) are classified as loans and receivables and carried at amortised cost. Payables under repo are carried at amortised cost.

Collateral of central counterparty

As the Group guarantees the settlement of certain traded contracts, it has established a multi-level collateral system. The central pillar of the collateral system is the daily determination of the overall risk per clearing member (margin) to be covered by cash and securities collateral.

Securities collateral is not derecognised by the clearing member providing the collateral. As the transfer of securities does not meet the conditions for derecognition, the securities are not recognised as assets.

In addition to these daily collateral payments, market participants must make contributions to the risk-covering fund which is described in Note 20.

2. Basis of Presentation and Significant Accounting Policies (continued)

Financial liabilities and equity instruments issued

Classification as debt or equity

Debt and equity instruments are classified as either 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.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognised directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

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 CCP financial liabilities under currency transactions and certain derivatives.

Other financial liabilities

Other financial liabilities, including banks deposits and balances of market participants, loans payable, distributions payable to holders of securities and other liabilities, are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

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 also 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.

2. Basis of Presentation and Significant Accounting Policies (continued)

Financial liabilities and equity instruments issued (continued)

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.

Precious metals

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

Property and equipment

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

Depreciation is recognised so as to write off the cost of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method:

Buildings and other real estate	2%
Furniture and equipment	20-33%

Freehold land is not depreciated.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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.

2. Basis of Presentation and Significant Accounting Policies (continued)

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives at the annual rates of 10% - 25%. The estimated useful life and amortisation method 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.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Amortisation is recognised on a straight-line basis at the annual rate of 4%. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Internally developed intangible assets

Development costs that are directly associated with the production of identifiable and unique software products controlled by the Group are capitalised 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 capitalised 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, are recognised in profit or loss when the asset is derecognised.

2. Basis of Presentation and Significant Accounting Policies (continued)

Intangible assets (continued)

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 that those assets have suffered an impairment loss. 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.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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 are 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. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Assets classified as held for sale

Assets and liabilities are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

Taxation

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Management of the Group periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

2. Basis of Presentation and Significant Accounting Policies (continued)

Taxation (continued)

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Deferred tax assets and liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Operating taxes

Countries where the Group operates also have various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the Consolidated Statement of Profit or Loss.

Share-based payments

The Group grants the right to some employees to purchase equity instruments on the terms set 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 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 (Note 9).

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

2. Basis of Presentation and Significant Accounting Policies (continued)

Provisions

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

Contingencies

Contingent liabilities are not recognised in the 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 Consolidated Statement of Financial Position but disclosed when an inflow of economic benefits is probable.

Fiduciary activities

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

Foreign currencies

In preparing the financial statements of each individual Group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purposes of presenting Consolidated Financial Statements, the assets and liabilities of the Group's foreign operations are translated into RUB using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interest as appropriate).

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

2. Basis of Presentation and Significant Accounting Policies (continued)

Segment reporting

An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Group); whose operating and financial results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. As at December 31, 2017, the Group comprised four operating segments (Note 29).

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 December 31, 2017.

The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Group’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 7 Disclosure Initiative

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

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

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

The application of these amendments has had no impact on the Group's consolidated financial statements.

Annual Improvements to IFRSs 2014-2016 Cycle

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

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

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

2. Basis of Presentation and Significant Accounting Policies (continued)

New and revised IFRSs in issue but not yet effective

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

IFRS 9 Financial Instruments

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

Key requirements of IFRS 9:

- **Classification and measurement of financial assets**. All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- **Classification and measurement of financial liabilities**. With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- **Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

2. Basis of Presentation and Significant Accounting Policies (continued)

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

IFRS 9 Financial Instruments (continued)

- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

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

Classification and measurement

- Amounts due from financial institutions and central counterparty financial assets and liabilities carried at amortised cost: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of IFRS 9;

- Listed bonds classified as available-for-sale investments carried at fair value as disclosed in Note 15: these are held within a business model whose objective is achieved both by collecting contractual cash flows and selling the bonds in the open market, and their contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal outstanding. Accordingly, the listed bonds will continue to be subsequently measured at FVTOCI upon the application of IFRS 9 , and the fair value gains or losses accumulated in the investment revaluation reserve will continue to be subsequently reclassified to profit or loss when the listed bonds are derecognised or reclassified except those the contractual terms of which are not solely payments of principal and interest;

- All other financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under IAS 39.

2. Basis of Presentation and Significant Accounting Policies (continued)

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

IFRS 9 Financial Instruments (continued)

Impairment

Financial assets measured at amortised cost and listed bonds that will be carried at FVTOCI under IFRS 9 will be subject to the impairment provisions of IFRS 9.

The Group expects to apply the simplified approach to recognise lifetime expected credit losses for amounts due from financial institutions, cash and cash equivalents and receivables as required or permitted by IFRS 9. Management of the Group considers that they have low credit risk given their strong external credit rating and hence expect to recognise 12-month expected credit losses for these items. In relation to Central counterparty financial assets (Note 14), Management of the Group has assessed that they are fully collateralised, regularly stress tested and covered by guarantee funds.

In general, given low credit risk of the Group's financial assets, measured at amortized cost, and carried at FVTOCI, Management of the Group estimates the total effect of expected loss provision will be no higher than RUB 400 million.

IFRS 15 Revenue from Contracts with Customers

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

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

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

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

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

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

2. Basis of Presentation and Significant Accounting Policies (continued)

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

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

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

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

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

Furthermore, extensive disclosures are required by IFRS 16.

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

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The amendments clarify the following:

1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.

2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

2. Basis of Presentation and Significant Accounting Policies (continued)

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

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions (continued)

3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:

- the original liability is derecognised;
- the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
- any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The amendments are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application permitted. Specific transition provisions apply. Management of the Group does not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

Amendments to IAS 40 Transfers of Investment Property

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

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

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

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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

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

2. Basis of Presentation and Significant Accounting Policies (continued)

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

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

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

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

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

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

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

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

2. Basis of Presentation and Significant Accounting Policies (continued)

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

Amendments to IFRS 9 Prepayment Features with Negative Compensation

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

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

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

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

Amendments to IAS 28 Long-Term Interests in Associates and Joint Ventures

The amendments clarify that IFRS 9, including its impairment requirements, applies to long-term interests in associates and joint ventures that form part of an entity's net investment in these investees. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9.

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

2. Basis of Presentation and Significant Accounting Policies (continued)

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

Annual Improvements to IFRSs 2014 - 2016 Cycle

The Annual Improvements include amendments to IFRS 1 and IAS 28 which are not yet mandatorily effective for the Group. The package also includes amendments to IFRS 12 which is mandatorily effective for the Group in the current year.

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

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

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

Annual Improvements to IFRSs 2015-2017 Cycle

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

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

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

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

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

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

3. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

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

Key sources of estimation uncertainty

Impairment of goodwill and other intangible assets

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the management to estimate the future cash flows expected to arise from the cash-generating unit and a discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

Details of the goodwill impairment testing are set out in Note 18.

At the end of each reporting period, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Useful lives of intangible assets

The Group annually examines the estimated useful life of its intangible assets. When determining the asset's useful life, the factors taken into account include the anticipated use of the asset, its typical life cycle, technical obsolescence, etc. Regarding amortization of intangible assets, see Note 17.

(in millions of Russian rubles, unless otherwise indicated)

3. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (continued)

Valuation of financial instruments

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

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

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

Share-based payments

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

4. Fee and Commission Income

	Year ended December 31, 2017	Year ended December 31, 2016
Money market	5 650,0	4 836,2
Depository and settlement services	4 183,9	3 564,0
Securities market	3 985,0	3 487,1
Foreign exchange	3 827,0	4 344,9
Derivatives	2 012,0	2 052,3
Information services	769,7	751,8
Sale of software and technical services	630,7	636,3
Other	149,3	125,0
Total fee and commission income	**21 207,6**	**19 797,6**

Income from securities market comprises fees and commissions from equities trading, bonds trading, listing and service fees:

	Year ended December 31, 2017	Year ended December 31, 2016
Bonds	1 982,5	1 483,0
Equities	1 610,2	1 588,8
Listing and other service fees	392,3	415,3
Total fee and commission income from securities market	**3 985,0**	**3 487,1**

(in millions of Russian rubles, unless otherwise indicated)

5. Interest and Other Finance Income

	Year ended December 31, 2017	Year ended December 31, 2016
Income/(loss) on securities at fair value through profit or loss		
Interest income	-	0,9
Net loss on securities at fair value through profit or loss	(4,9)	(4,5)
Total loss on securities at fair value through profit or loss	**(4,9)**	**(3,6)**
Interest income on financial assets other than at fair value through profit or loss		
Interest income on investments available-for-sale	12 391,7	15 512,4
Interest on cash and cash equivalents and due from financial institutions	3 653,4	7 221,8
Total interest income on financial assets other than at fair value through profit or loss	**16 045,1**	**22 734,2**
Total interest and other finance income	**16 040,2**	**22 730,6**

6. Interest Expense

	Year ended December 31, 2017	Year ended December 31, 2016
Interest expense on interbank loans and deposits	514,4	3,5
Interest expense on stress collateral	166,1	101,0
Interest expense on repo agreements and other	149,3	14,0
Total interest expense	**829,8**	**118,5**

7. Foreign Exchange Gains Less Losses

	Year ended December 31, 2017	Year ended December 31, 2016
Foreign exchange swaps	1 065,4	(170,5)
Net other foreign exchange losses	(6,3)	(171,9)
Total foreign exchange gains less losses	**1 059,1**	**(342,4)**

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

(in millions of Russian rubles, unless otherwise indicated)

8. Administrative and Other Operating Expenses

	Year ended December 31, 2017	Year ended December 31, 2016
Amortisation of intangible assets (Note 17)	1 488,2	1 262,1
Depreciation of property and equipment (Note 16)	1 464,3	1 032,2
Equipment and intangible assets maintenance	1 120,1	966,0
Taxes, other than income tax	540,0	476,1
Market makers fees	522,2	477,1
Rent and office maintenance	475,3	479,8
Professional services	426,3	317,5
Advertising and marketing costs	330,8	407,4
Registrar and foreign depositary services	292,2	273,6
Information services	187,7	207,2
Communication services	123,3	132,8
Business trip expenses	71,4	81,8
Loss on disposal of property, equipment and intangible assets	60,9	9,5
Charity	29,9	28,3
Security expenses	29,5	30,6
Transport expenses	16,0	20,5
Impairment of intangible assets (Note 17)	15,0	-
Loss on disposal of assets held for sale	-	52,4
Impairment of other assets (Note 19)	8,8	2,8
Other	77,0	54,6
Total administrative and other operating expenses	**7 278,9**	**6 312,3**

During the year ended December 31, 2016 the Group recognised a loss of RUB 52,4 million on sale of the disposal group held for sale under IFRS 5 "Non-current assets held for sale and discontinued operations". It consists of the loss on sale of the investment in associate UEX in the amount of RUB 13,0 million and subsidiary PFTS in the amount of RUB 39,4 million.

At the date of disposal PFTS' assets amounted RUB 83,8 million and liabilities were RUB 3,4 million. The total consideration from sale was RUB 49,0 million paid in cash. Cash disposed with the subsidiary amounted RUB 2,5 million. Net cash inflow on disposal of the subsidiary was RUB 46,5 million.

Professional services comprise consulting, audit, legal services and other.

(in millions of Russian rubles, unless otherwise indicated)

9. Personnel Expenses

	Year ended December 31, 2017	Year ended December 31, 2016
Employees benefits except for share-based payments	4 932,7	4 794,4
Payroll related taxes	952,3	897,4
Share-based payment expense on equity settled instruments	242,2	255,3
Share-based payment expense on cash settled instruments	25,7	-
Total personnel expenses	**6 152,9**	**5 947,1**

Rights to purchase equity instruments granted to some employees give to holders a choice either to only purchase the full number of shares at exercise price or also to sell back shares at the market price for the same ruble value. A majority of the rights vest when the employee continues to be employed by the Group at the vesting date. The maximum contractual term of the contracts is four years. The maximum contractual term of the contracts granted in 2017 is three and a half years. The fair value of the rights is measured at the grant date using a binomial model taking into account the terms and conditions upon which the instruments were granted.

In 2017 the new program of cash settled instruments was introduced. The amount of cash consideration to be received by the employees is linked to the future market price of the Group’s shares. A majority of the rights vest when the employee continues to be employed by the Group at the vesting date. The maximum contractual term of the contracts is three and a half years. The fair value of the rights is remeasured at each reporting date using a binomial model.

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

	Number	WAEP
Outstanding at January 1, 2016	**48 399 029**	**61,49**
Granted	3 000 000	119,75
Exercised (Note 22)	(13 582 037)	50,01
Forfeited	(250 001)	46,90
Expired	(6 433 649)	50,01
Outstanding at December 31, 2016	**31 133 342**	**74,60**
Granted	19 041 180	113,34
Exercised (Note 22)	(3 117 055)	64,25
Forfeited	(1 483 335)	75,10
Expired	(2 649 615)	64,25
Outstanding at December 31, 2017	**42 924 517**	**93,16**

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

507 530 cash settled instruments were granted during the year ended December 31, 2017. The weighted average remaining contractual life is 1,32 years.

The number of equity rights exercisable as at December 31, 2017 is 13 083 329 with WAEP of RUB 74,09 (December 31, 2016: 9 000 000 with WAEP of RUB 67,25).

(in millions of Russian rubles, unless otherwise indicated)

9. Personnel Expenses (continued)

The weighted average fair value of equity rights granted during the year ended December 31, 2017 was RUB 20,75 (December 31, 2016: RUB 29,09). The weighted average fair value of cash settled rights granted during the year ended December 31, 2017 was RUB 97,77.

The range of exercise prices and weighted average remaining contractual life of equity rights are as follows:

	December 31, 2017		December 31, 2016	
Exercise price	**Number outstanding**	**Weighted average remaining contractual life**	**Number outstanding**	**Weighted average remaining contractual life**
46,9 - 62,0	166 667	-	2 416 673	0,07
62,0 - 77,0	17 066 668	0,13	20 466 669	0,60
77,0 - 92,0	4 000 002	0,40	5 250 000	0,96
107,0 - 122,0	21 691 180	1,72	3 000 000	2,26
	42 924 517	**0,96**	**31 133 342**	**0,78**

The following table lists the inputs to the models used:

Assumption	**Equity settled** Year ended December 31, 2017	**Equity settled** Year ended December 31, 2016	**Cash settled** Year ended December 31, 2017	**Cash settled** Year ended December 31, 2016
Expected volatility	22,4%	25,8%	22,7%	-
Risk-free interest rate	7,8%	8,3%	6,9%	-
Weighted average share price, RUB	114,13	123,58	109,23	-
Dividend yield	4,8%	4,4%	5,2%	-

The volatility assumption is based on implied volatilities of quoted shares of similar stock exchanges. Equity settled instruments are measured at grant date and cash settled instruments are remeasured at each reporting dates.

10. Income Tax

The Group provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of countries where the Group and its subsidiaries operate and which may differ from IFRS.

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

(in millions of Russian rubles, unless otherwise indicated)

10. Income Tax (continued)

The analysis of the movement temporary differences for the year ended December 31, 2017 is presented below:

	December 31, 2016	Recognised in profit or loss	Recognised in investments revaluation reserve	Recognised in translation effect	December 31, 2017
Tax effect from deductible temporary differences					
Financial assets at fair value though profit or loss	6,5	-	-	-	6,5
Investments available-for-sale	1 627,1	(1 474,4)	-	-	152,7
Property and equipment and intangible assets	8,5	3,7	-	-	12,2
Other assets	10,5	6,9	-	(0,1)	17,3
Tax loss carried forward	6,2	5,9	-	-	12,1
Other liabilities	466,2	55,0	-	-	521,2
Total tax effect from deductible temporary differences	**2 125,0**	**(1 402,9)**	**-**	**(0,1)**	**722,0**
Tax effect from taxable temporary differences					
Financial assets at fair value though profit or loss	-	(82,7)	-	-	(82,7)
Investments available-for-sale	(12,4)	65,6	(61,6)	-	(8,4)
Property and equipment and intangible assets	(3 478,2)	185,6	-	-	(3 292,6)
Other assets	(23,1)	(13,9)	-	-	(37,0)
Other liabilities	(0,4)	(0,8)	-	-	(1,2)
Total tax effect from taxable temporary differences	**(3 514,1)**	**153,8**	**(61,6)**	**-**	**(3 421,9)**
Deferred tax expense	**-**	**(1 249,1)**	**(61,6)**	**(0,1)**	**-**
Deferred income tax assets	**1 776,5**	**(1 402,9)**	**-**	**(0,1)**	**243,4**
Deferred income tax liabilities	**(3 165,6)**	**153,8**	**(61,6)**	**-**	**(2 943,3)**

(in millions of Russian rubles, unless otherwise indicated)

10. Income Tax (continued)

The analysis of the movement temporary differences for the year ended December 31, 2016 is presented below:

	December 31, 2015	Recognised in profit or loss	Recognised in investments revaluation reserve	Sold	Recognised in translation effect	December 31, 2016
Tax effect from deductible temporary differences						
Financial assets at fair value though profit or loss	6,5	-	-	-	-	6,5
Investments in associates and investments available-for-sale	-	1 627,1	-	-	-	1 627,1
Property and equipment and intangible assets	9,5	(1,0)	-	-	-	8,5
Assets held for sale	3,2	0,3	-	(3,5)	-	-
Other assets	11,1	0,4	-	-	(1,0)	10,5
Tax loss carried forward	12,1	(5,9)	-	-	-	6,2
Other liabilities	450,1	16,1	-	-	-	466,2
Total tax effect from deductible temporary differences	**492,5**	**1 637,0**	**-**	**(3,5)**	**(1,0)**	**2 125,0**
Tax effect from taxable temporary differences						
Investments in associates and investments available-for-sale	(1 777,5)	1 772,6	(7,5)	-	-	(12,4)
Property and equipment and intangible assets	(3 604,6)	126,4	-	-	-	(3 478,2)
Other assets	(11,1)	(12,0)	-	-	-	(23,1)
Other liabilities	(1,9)	1,5	-	-	-	(0,4)
Total tax effect from taxable temporary differences	**(5 395,1)**	**1 888,5**	**(7,5)**	**-**	**-**	**(3 514,1)**
Deferred tax income/(expense)		**3 525,5**	**(7,5)**	**(3,5)**	**(1,0)**	
Deferred income tax assets	**114,7**	**1 637,0**	**-**	**(3,5)**	**(1,0)**	**1 776,5**
Deferred income tax liabilities	**(5 017,3)**	**1 888,5**	**(7,5)**	**-**	**-**	**(3 165,6)**

(in millions of Russian rubles, unless otherwise indicated)

10. Income Tax (continued)

Reconciliation of income tax expense and accounting profit for the year ended December 31, 2017 and 2016, are explained below:

	Year ended December 31, 2017	Year ended December 31, 2016
Profit before income tax	**25 107,1**	**31 307,8**
Tax at the statutory tax rate (20%)	5 021,4	6 261,6
Tax effect of income taxed at rates different from the prime rate	(319,4)	(375,8)
Non-deductible expenses for tax purposes	149,9	236,6
Write-off of deferred tax asset	-	3,7
Adjustments in respect of current income tax of previous years	-	(0,9)
Income tax expense	**4 851,9**	**6 125,2**
Current income tax expense	3 602,8	9 650,7
Deferred taxation movement due to origination and reversal of temporary differences	1 255,0	(3 531,4)
Deferred taxation movement due to tax losses carried forward	(5,9)	5,9
Income tax expense	**4 851,9**	**6 125,2**

11. Cash and Cash Equivalents

	December 31, 2017	December 31, 2016
Correspondent accounts and overnight deposits with banks	209 939,5	356 741,6
- Organization for Economic Cooperation and Development countries	187 920,8	313 703,2
- Russian Federation	21 759,7	42 607,0
- other countries	259,0	431,4
Balances with the CBR	63 304,2	23 693,7
Receivables on broker and clearing operations	-	77,3
Cash on hand	4,9	4,0
Total cash and cash equivalents	**273 248,6**	**380 516,6**

As at December 31, 2017, the Group has balances with six counterparties, each of which is greater than 10% of equity (December 31, 2016: six counterparties). The total aggregate amount of these balances is RUB 231 662,4 million or 85% of total cash and cash equivalents as at December 31, 2017 (December 31, 2016: RUB 330 779,3 million or 87% of total cash and cash equivalents).

(in millions of Russian rubles, unless otherwise indicated)

12. Financial Assets at Fair Value through Profit or Loss

	December 31, 2017	December 31, 2016
Derivative financial instruments	413,6	-
Bonds issued by Russian Federation	-	0,4
Total financial assets at fair value through profit or loss	**413,6**	**0,4**

Derivative financial instruments with a fair value of RUB 404,3 million are with OECD counterparties.

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

	Fair value of principal amount or agreed amount		Assets - positive fair value	Liabilities - negative fair value
	Receivables	Payables		
Currency swaps	26 308,5	(25 901,2)	413,6	(6,3)

The negative fair value of derivative financial instruments in the amount of RUB 6,3 million is included in other liabilities (Note 21).

As at December 31, 2016, the Group had no open positions under derivative financial instruments.

13. Due from Financial Institutions

Due from financial institutions are presented as follows:

	December 31, 2017	December 31, 2016
Reverse repo receivables from financial institutions	46 935,2	47 887,7
Interbank loans and term deposits	7 345,5	4 633,8
Mandatory cash balances with the CBR (restricted)	6 010,6	3 240,8
Correspondent accounts and deposits in precious metals	3 315,0	3 076,3
Receivables on broker and clearing operations	0,6	-
Term deposits with the CBR	-	5 004,1
Total due from financial institutions	**63 606,9**	**63 842,7**

As at December 31, 2017, the Group has a balance with one counterparty which is greater than 10% of equity (December 31, 2016: one counterparty). The amount of this balance is RUB 36 802,8 million or 58% of the total amount due from financial institutions as at December 31, 2017 (December 31, 2016: RUB 45 089,2 million or 71% of the total amount due from financial institutions).

As at December 31, 2017, the fair value of bonds pledged under reverse repo was RUB 61 777,9 million (December 31, 2016: RUB 62 517,1 million).

Interbank loans and term deposits include restricted amounts on correspondent account with Euroclear Bank S.A./N.V., Brussels, which relate to foreign securities (coupon and principal repayments) owned by the depositary client, in the amount of RUB 6 144,1 million (December 31, 2016: RUB 4 560,7 million). Balances of market participants include balances due to this client in respect of those securities in the amount of RUB 6 144,1 million (December 31, 2016: RUB 4 560,7 million).

(in millions of Russian rubles, unless otherwise indicated)

14. Central Counterparty Financial Assets and Liabilities

	December 31, 2017	December 31, 2016
Repo transactions	2 428 117,0	1 730 377,0
Currency transactions	1 966,8	2 886,8
Total central counterparty financial assets and liabilities	**2 430 083,8**	**1 733 263,8**

CCP financial assets are receivables under currency and repo transactions and CCP financial liabilities are payables under offsetting transactions, which the Group entered with market participants as a CCP.

As at December 31, 2017 the fair value of securities purchased and sold by the Group under repo transactions is RUB 2 792 270,8 million (December 31, 2016: RUB 1 924 488,1 million).

As at December 31, 2017 and 2016, none of these assets were past due.

CCP financial assets and liabilities under currency transactions represent fair values of overnight currency deals. Gross claims and liabilities with individual counterparties are offset in accordance with IAS 32. Information about financial assets offset against financial liabilities in the statement of financial position is disclosed in Note 31.

15. Investments Available-for-Sale

	December 31, 2017	December 31, 2016
Bonds issued by Russian Federation	119 453,3	135 133,6
Bonds issued by foreign companies	43 529,2	39 809,3
Bonds issued by Russian banks	21 674,7	21 438,0
Bonds issued by Russian companies	21 286,3	21 977,3
Bonds issued by CBR	9 062,5	-
Shares issued by Russian companies	119,3	119,4
Shares issued by foreign companies	6,9	18,6
Total investments available-for-sale	**215 132,2**	**218 496,2**

(in millions of Russian rubles, unless otherwise indicated)

16. Property and Equipment

	Land	Buildings and other real estate	Furniture and equipment	Construction in progress	Total
Cost					
December 31, 2015	**222,0**	**5 983,2**	**4 403,6**	**197,1**	**10 805,9**
Additions	-	1,5	1 956,4	-	1 957,9
Reclassification	-	-	145,5	(145,6)	(0,1)
Disposals	-	-	(208,2)	-	(208,2)
Effect of movements in exchange rates	(2,1)	(12,5)	(2,3)	-	(16,9)
December 31, 2016	**219,9**	**5 972,2**	**6 295,0**	**51,5**	**12 538,6**
Additions	-	-	485,8	0,3	486,1
Reclassification	-	(8,8)	51,8	(43,0)	-
Disposals	-	(97,2)	(32,8)	-	(130,0)
Effect of movements in exchange rates	(0,6)	(3,1)	(0,6)	-	(4,3)
December 31, 2017	**219,3**	**5 863,1**	**6 799,2**	**8,8**	**12 890,4**
Accumulated depreciation					
December 31, 2015	**-**	**1 234,6**	**2 775,5**	**-**	**4 010,1**
Charge for the year	-	120,3	911,9	-	1 032,2
Disposals	-	-	(206,3)	-	(206,3)
Effect of movements in exchange rates	-	(1,8)	(2,0)	-	(3,8)
December 31, 2016	**-**	**1 353,1**	**3 479,1**	**-**	**4 832,2**
Charge for the year	-	119,2	1 345,1	-	1 464,3
Disposals	-	(14,4)	(26,7)	-	(41,1)
Reclassification	-	(4,3)	4,3	-	-
Effect of movements in exchange rates	-	(0,6)	(0,6)	-	(1,2)
December 31, 2017	**-**	**1 453,0**	**4 801,2**	**-**	**6 254,2**
Net book value					
December 31, 2016	**219,9**	**4 619,1**	**2 815,9**	**51,5**	**7 706,4**
December 31, 2017	**219,3**	**4 410,1**	**1 998,0**	**8,8**	**6 636,2**

As at December 31, 2017, historical cost of fully depreciated property and equipment amounts to RUB 2 254,2 million (December 31, 2016: RUB 1 797,6 million).

(in millions of Russian rubles, unless otherwise indicated)

17. Intangible Assets

	Software and licenses	Client base	Intangible assets development	Total
Cost				
December 31, 2015	**2 786,2**	**19 606,7**	**229,0**	**22 621,9**
Additions	1 281,3	-	323,2	1 604,5
Transfer to other assets	-	-	(1,0)	(1,0)
Disposals	(315,3)	-	(1,6)	(316,9)
Effect of movements in exchange rates	(0,1)	-	-	(0,1)
December 31, 2016	**3 752,1**	**19 606,7**	**549,6**	**23 908,4**
Additions	984,9	-	469,3	1 454,2
Reclassification	405,0	-	(405,0)	-
Disposals	(225,5)	-	-	(225,5)
Effect of movements in exchange rates	(0,1)	-	-	(0,1)
December 31, 2017	**4 916,4**	**19 606,7**	**613,9**	**25 137,0**
Accumulated amortisation and impairment				
December 31, 2015	**1 051,4**	**3 541,1**	**-**	**4 592,5**
Charge for the year	477,8	784,3	-	1 262,1
Disposals	(304,0)	-	-	(304,0)
Effect of movements in exchange rates	(0,1)	-	-	(0,1)
December 31, 2016	**1 225,1**	**4 325,4**	**-**	**5 550,5**
Charge for the year	703,9	784,3	-	1 488,2
Impairment (Note 8)	15,0	-	-	15,0
Disposals	(224,3)	-	-	(224,3)
Effect of movements in exchange rates	(0,3)	-	-	(0,3)
December 31, 2017	**1 719,4**	**5 109,7**	**-**	**6 829,1**
Net book value				
December 31, 2016	**2 527,0**	**15 281,3**	**549,6**	**18 357,9**
December 31, 2017	**3 197,0**	**14 497,0**	**613,9**	**18 307,9**

(in millions of Russian rubles, unless otherwise indicated)

18. Goodwill

As at December 31, 2017 and 2016 the Group's goodwill amounted RUB 15 971,4 million.

Impairment Test for Goodwill

Goodwill must be tested annually for impairment, or more frequently when there are indicators that impairment may have occurred. Goodwill is recorded at cost less accumulated impairment losses. Impairment losses recognised on goodwill are not reversed.

Goodwill acquired through business combinations is allocated to the following cash-generating units ("CGU") for impairment testing:

	Net Book Value
Trading services	10 774,1
Clearing	3 738,7
Depositary	1 458,6
Total goodwill	**15 971,4**

The recoverable amounts of these CGUs have been determined based on value in use calculations, using discounted cash flow projections prepared by Management of the Group covering the eighteen-year period. Discount rate of 11,4% p.a. is applied to cash flows. Value in use calculations for each CGU are based on key assumptions about short and medium term revenue and cost growth and long term economic growth rates (used to determine terminal values).

The values assigned to short and medium term revenue and cost growth assumptions are based on the Group's approved business plan. The assumptions are derived from an assessment of current trends and the Group's long-term strategic objectives.

Based on the results of the impairment tests performed no impairment of the carrying value of the goodwill in any CGU was identified.

Value in use calculations for each CGU are sensitive to changes in discount rates. Management of the Group carried out sensitivity analysis to determine the impacts of changes in this variable on the calculated value in use: change of 150 bps in the discount rate. The sensitivity analysis revealed the cumulative value in use of the segments 10,8% lower or 15,4% higher than the value in use estimated, which does not lead to any significant change of the results of goodwill impairment testing in any CGU.

(in millions of Russian rubles, unless otherwise indicated)

19. Other Assets

	December 31, 2017	December 31, 2016
Other financial assets:		
Receivables on services rendered and other operations	758,2	861,3
Less allowance for impairment	(23,3)	(41,7)
Total other financial assets	**734,9**	**819,6**
Other non-financial assets:		
Precious metals	2 539,0	561,1
Prepaid expenses	293,4	469,1
Non-current assets prepaid	179,2	25,6
Taxes receivable other than income tax	57,5	53,7
Other	14,9	25,0
Total other assets	**3 818,9**	**1 954,1**

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

	Year ended December 31, 2017	Year ended December 31, 2016
Beginning of the year	**41,7**	**46,6**
Net charge for the year (Note 8)	8,8	2,8
Write-offs	(27,2)	(7,7)
End of the year	**23,3**	**41,7**

(in millions of Russian rubles, unless otherwise indicated)

20. Balances of Market Participants

	December 31, 2017	December 31, 2016
Accounts of clearing participants	408 127,6	497 323,4
Other current and settlement accounts	41 119,4	50 639,8
Risk-covering funds	6 298,6	3 973,4
Accounts of clearing participants in precious metals	5 854,0	3 637,3
Stress collateral	5 460,6	19 016,2
Total balances of market participants	**466 860,2**	**574 590,1**

Accounts of clearing participants include margins deposited by clearing participants. The purpose of margins is to support clearing settlements on the market and to cover risks arising from open positions of market participants, including operations of market participants, where the Group acts as a central counterparty. If an initial margin requirement exceeds the collateral posted by a market participant in the guarantee fund, the participant is required to cover the deficit by posting additional margin for the unsettled trades or to reduce the open position to an appropriate level. The margins is payable to a market participant when it closes its positions. The Group places guarantee fund amounts on current accounts and deposits with reputable banks or repo receivables (Notes 11, 13).

Market participants also pledge traded securities to the guarantee fund as collateral for their obligations. These securities are blocked at the participants' custody accounts in NSD. These securities are not assets of the Group and are not recognised in the Consolidated Statement of the Financial Position.

Stress collateral is an additional individual clearing collateral used on foreign exchange, securities and derivative markets. Stress collateral is calculated based on the volume of risk on transactions with partial collateral concluded by the clearing participants with the Central Counterparty. Requirements for depositing stress collateral arise for clearing participants who have average daily positions in excess of positions of other participants in the relevant market. NCC is obliged to pay an interest to the clearing participants for the right to use funds deposited as stress collateral.

The risk-covering funds comprise contributions deposited by market participants. The purpose of these funds is to provide additional insurance to the market participants in respect of the ability of the Group to guarantee proper settlements of open positions in case of a market participant default. The minimum contribution amount per one participant is determined by the NCC Supervisory Board and it is approved by the Derivatives Market Committee, the Currency Market Committee, the Securities Market Committee and the Securities Lending & REPO Committee. Risk-covering funds amounts are only used to cover the deficit if a margin posted by a trading participant is not sufficient to cover its losses. Cash received from the market participants in the risk-covering funds is placed with top-rated banks (Notes 11, 13).

(in millions of Russian rubles, unless otherwise indicated)

21. Other Liabilities

	December 31, 2017	December 31, 2016
Other financial liabilities		
Payables to employees	2 163,2	2 073,7
Trade and other payables	427,6	592,7
Tax agent liabilities regarding distributions payable to holders of securities	211,1	-
Derivative financial liabilities	6,3	-
Dividends payable	0,1	162,3
Total other financial liabilities	**2 808,3**	**2 828,7**
Other non-financial liabilities		
Deferred commission income	533,9	383,3
Advances received	257,5	254,0
Taxes payable, other than income tax	105,7	120,2
Other	5,8	5,8
Total other liabilities	**3 711,2**	**3 592,0**

22. Share Capital and Share Premium

The share capital of Moscow exchange comprises ordinary shares with a par value of RUB 1 each:

	Ordinary shares issued and fully paid (number of shares)	Treasury shares (number of shares)
December 31, 2015	**2 278 636 493**	**(44 771 962)**
Purchase of treasury shares	-	(2 235 035)
Exercised equity instruments (Note 9)	-	13 582 037
December 31, 2016	**2 278 636 493**	**(33 424 960)**
Cancellation of shares	(2 235 035)	2 235 035
Exercised equity instruments (Note 9)	-	3 117 055
December 31, 2017	**2 276 401 458**	**(28 072 870)**

Share premium represents an excess of contributions received over the nominal value of shares issued. The number of authorized shares during the year ended December 31, 2017 and 2016 is 12 097 557 186.

(in millions of Russian rubles, unless otherwise indicated)

22. Share Capital and Share Premium (continued)

As at July 7, 2017 changes to the Charter of Moscow Exchange came into force. Changes included share reduction through the redemption of 2 235 035 treasury shares with nominal value of 1 RUB each. Share capital reduction was approved by the Annual General Shareholders Meeting on April 27, 2017. The treasury shares were acquired as a result of obligatory buy-out during the merge of CJSC MICEX Stock Exchange and LLC ME Technology with the parent company.

In 2017 the Group distributed to employees 3 117 055 treasury shares under exercised equity instruments (2016: 13 582 037 treasury shares) (Note 9).

23. Retained Earnings

During the year ended December 31, 2017, the Group declared and paid dividends for the year ended December 31, 2016, to the owners of the parent of RUB 17 289,7 million (December 31, 2016: RUB 15 994,7 million for the year ended December 31, 2015). The amount of dividends per share is RUB 7,68 per ordinary share (December 31, 2016: 7,11 per ordinary share). The Group also declared and paid interim dividends for the period ended June 30, 2017, to the owners of the parent of RUB 5 607,4 million. The amount of interim dividends per share is RUB 2,49 per ordinary share.

The Group's distributable reserves are limited to the amount of reserves reported in the statutory financial statements of the Group 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, as well as funds of NCC required to comply with regulations of CBR relating to CCP activities.

24. Earnings per Share

The calculation of earnings per share is based on the profit for the year attributable to shareholders of the Group and the weighted average number of ordinary outstanding during the year, calculated as shown below.

	Year ended December 31, 2017	**Year ended December 31, 2016**
Net profit attributable to ordinary equity holders of the parent	**20 265,7**	**25 178,1**
Weighted average number of shares	**2 247 441 093**	**2 243 085 123**
Effect of dilutive share options	9 139 254	13 356 966
Weighted average number of shares adjusted for the effect of dilution	**2 256 580 347**	**2 256 442 089**
Basic earnings per share, RUB	9,02	11,22
Diluted earnings per share, RUB	8,98	11,16

(in millions of Russian rubles, unless otherwise indicated)

25. Commitments and Contingencies

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

	December 31, 2017	December 31, 2016
Less than 1 year	168,1	164,6
More than 1 year and no more than 5 years	231,3	349,8
Total operating lease commitments	**399,4**	**514,4**

Legal proceedings – From time to time and in the normal course of business, claims against the Group may be received from customers and counterparties. Management of the Group believes that such claims may not have a material impact on its financial and operational activities and that no material losses will be incurred, and accordingly no provision has been made in these Consolidated Financial Statements.

One of the regional brokers, whose license was revoked by CBR at the end of 2015, undergone bankruptcy procedure in autumn 2016. The bankruptcy trustee and the brokers' creditors filed claims with the arbitration court to void several deals concluded by the broker before it went bankrupt. In particular, pursuers sued one of the Group's entities, acting as the central counterparty, challenging the standard clearing procedures on foreclosure of positions of the broker in October 2015. The total amount of securities sold as the result of foreclosure was RUB 844,7 million. According to the legislation, the cash received was used by the central counterparty to settle obligations with non-defaulting counterparties of the related deals. This is the standard clearing mechanism established by laws and regulations and routinely applied by the central counterparty to defaulted market participants. At the court session in February 2018 the judge postponed the litigation to March 2018 to further scrutinize the details of the case. The Management estimates the risk of economic resources outflow as a result of the claim as below average. The Group is confident in its legal position.

Operating environment – The Russian economy has fully adjusted to the decline in oil prices and sanctions imposed on Russia by a number of countries. The current situation is characterized by conservative macroeconomic management exhibited by authorities, robust net external assets' position, low government debt and relatively high monetary flexibility based on free flotation of the Ruble. Interest rates are subsiding and the inflation has been anchored to low single-digits. The economic uncertainty has decreased substantially amid reduced volatility of the Ruble and the country's capital markets. The projected economic growth is mild and appears unlikely to provide meaningful support to business prospects of the Group. Sanctions remain the biggest unknown and a factor of possible adverse developments in the future.

(in millions of Russian rubles, unless otherwise indicated)

25. Commitments and Contingencies (continued)

Taxation – Major part of the Group’s business activity is carried out in the Russian Federation. Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. Management's interpretation of such legislation as applied to the transactions and activity of the Group 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 Group 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, 2017 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

26. Transactions with Related Parties

Intragroup transactions have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

(a) Transactions with key management

Key management personnel comprises members of the Executive Board and the Supervisory 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 share-based payment expense.

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

	December 31, 2017	**December 31, 2016**
Other liabilities	730,8	476,8
Share-based payments	309,0	255,0

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

	Year ended December 31, 2017	**Year ended December 31, 2016**
Short-term employee benefits	435,2	446,4
Share-based payment expense on equity settled instruments	108,9	137,8
Long-term employee benefits	91,7	99,9
Total remuneration of key management personnel	**635,8**	**684,1**

(in millions of Russian rubles, unless otherwise indicated)

26. Transactions with Related Parties (continued)

(b) Transactions with government-related entities

As at December 31, 2017 the Russian Federation exercises significant influence over Moscow Exchange.

In the ordinary course of business the Group provides trading, clearing and depositary services to government-related entities, places funds with government-related banks and bonds issued by the Russian Federation and government-related entities. According to p.26 (b) of IAS 24 the Group discloses the following significant outstanding balances and financial results on operations with government-related entities As at December 31, 2017 and 2016 and for the years ended December 31, 2017 and December 31, 2016:

	December 31, 2017	December 31, 2016
ASSETS		
Cash and cash equivalents	185 947,8	117 204,7
Financial assets at fair value though profit or loss	-	0,4
Due from financial institutions	7 190,8	8 303,6
Investments available-for-sale	158 324,9	175 722,5
Other assets	214,3	112,7
LIABILITIES		
Balances of market participants	174 570,7	208 084,5
Distributions payable to holders of securities	1 551,0	2 163,1
Other liabilities	1,8	0,5

	Year ended December 31, 2017	Year ended December 31, 2016
Fee and commission income	6 823,1	4 968,4
Interest and other finance income	10 630,1	14 864,7
Interest expense	(687,7)	(60,8)
Net gain on financial assets available-for-sale	706,0	986,1
Administrative and other operating expenses	(166,9)	(115,1)

As at December 31, 2017 operations with government-related entities within central counterparty financial assets and liabilities amounted to 11,4% of total balance. (December 31, 2016: 7,8%).

(c) Transactions with associates

As at December 31, 2017 and as at December 31, 2016 no amounts that arose on transactions with associates were included in the Consolidated Statement of Financial Position.

Included in the Consolidated Statement of Profit or Loss were the following amounts that arose due to transactions with associates:

	Year ended December 31, 2017	Year ended December 31, 2016
Administrative and other operating expenses	-	(13,7)

(in millions of Russian rubles, unless otherwise indicated)

27. Fair Value Measurements

The Group performs a fair value assessment of its financial assets and liabilities, as required by IFRS 13 Fair Value Measurement. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability.

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

The fair value of unquoted equity instruments has been determined based on market approach using price/net assets ratio for similar companies.

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

	December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value though profit or loss	-	413,6	-	**413,6**
Central counterparty financial assets and liabilities (currency transactions)	1 966,8	-	-	**1 966,8**
Investments available-for-sale	189 324,7	25 681,3	126,2	**215 132,2**
Derivative financial liabilities	-	(6,3)	-	**(6,3)**

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

	December 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value though profit or loss	0,4	-	-	**0,4**
Central counterparty financial assets and liabilities (currency transactions)	2 886,8	-	-	**2 886,8**
Investments available-for-sale	205 222,4	13 135,8	138,0	**218 496,2**

(in millions of Russian rubles, unless otherwise indicated)

27. Fair Value Measurements (continued)

The following table shows a reconciliation for year ended December 31, 2017 and December 31, 2016, for fair value measurements in Level 3 of the fair value hierarchy:

	AFS
Balance at December 31, 2015	**145,6**
Loss recognized in net loss on financial assets available-for-sale	(6,9)
Foreign exchange loss	(0,7)
Balance at December 31, 2016	**138,0**
Loss recognized in net loss on financial assets available-for-sale	(11,8)
Balance at December 31, 2017	**126,2**

Management of the Group considers that the fair value of financial assets and liabilities not carried at fair value in Consolidated Statement of Financial Position approximates their carrying value.

Transfers between level 1 and 2

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

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

	Transfers between Level 1 and Level 2	
	Year ended December 31, 2017	**Year ended December 31, 2016**
From Level 1 to Level 2		
Investments available-for-sale	3 757,6	6 894,7
From Level 2 to Level 1		
Investments available-for-sale	898,4	114,9

28. Capital Management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Supervisory Board monitors the return on capital, which the Group defines as net profit divided by total equity, excluding non-controlling interests. The Supervisory Board also monitors the level of dividends to ordinary shareholders.

(in millions of Russian rubles, unless otherwise indicated)

28. Capital Management (continued)

The capital structure of the Group consists of the shareholder's equity, which includes capital issued, reserves and retained earnings. The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. Although maximization of return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision making. Account is also taken of synergies with other operations and activities, the availability of management and other resources and the fit of the activity with the longer term strategic objectives. The policies in respect of capital management and allocation are regularly reviewed by the Supervisory Board through approval and review within annual budgets.

The Group entities are subject to capital requirements established by the CBR in respect of the minimum amount of own funds for each entity depending on the nature of their activities. NSD and NCC as credit institutions have to maintain a ratio of capital to risk weighted assets (statutory capital ratio N1) above the prescribed minimum level, which is 12% for non-banking credit institutions (NCC and NSD).

Regulatory capital ratios for the major Group companies were as follows:

	Own funds		Own funds requirements		Capital adequacy ratio	
	December 31, 2017	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**
Moscow Exchange	51 247,9	52 555,0	100,0	100,0	-	-
NCC	45 903,5	46 214,2	300,0	300,0	18,42	19,42
NSD	8 945,3	8 805,2	4 000,0	4 000,0	28,54	22,78
NAMEX	178,6	211,0	100,0	100,0	-	-

The Group companies had complied in full with all its externally imposed capital requirements at all times.

29. Operating Segments

The Group distinguishes the following operating segments for management purposes depending on the types of products and services:

Operating segment **"Trading services"** includes the Group's trading services in foreign exchange, securities, derivatives and money markets, listing and other trading services.

In the **Foreign Exchange Market** of Moscow Exchange spot and swap transactions are performed with different maturities in the following currencies: USD, EUR, CNY, HKD, GBP, CHF, UAH, KZT and BYR. Deliverable forward contracts for currency pairs are also traded in the foreign exchange market, and transactions with precious metals are performed (gold and silver).

In the **Money Market** Moscow Exchange provides repo services with shares and bonds of the following types: repo with the CCP, including repo with General Collateral Certificates with CCP (GCC-repo), inter-dealer repo, direct repo with the CBR. Participants can also perform depositary-credit operations, in particular, funds placement auctions on bank deposits.

In the **Securities Market** of Moscow Exchange primary and secondary trades in shares, Russian government bonds (OFZ), municipal and corporate bonds, foreign state and corporate eurobonds, depositary receipts, fund shares, ETFs are performed.

29. Operating Segments (continued)

In the **Derivatives Market** of Moscow Exchange the following derivative instruments are traded: futures contracts on indices, Russian and foreign shares, Russian government bonds (OFZ) and eurobonds Russia-30, currency pairs, interest rates, precious metals, crude oil and sugar, and option contracts on futures.

Listing services – inclusion and maintenance of securities in the List of securities admitted to on-exchange trading.

Operating segment **"Clearing"** includes mainly CCP clearing services and other clearing services.

The CCP guarantees stability in the serviced market segments through the risk-management system implementation, and provides clearing services to the market participants. The CCP guarantees that all obligations to all non-defaulting parties of the contracts signed with the CCP, regardless of whether obligations to the CCP are met or not, are fulfilled.

Operating segment **"Depositary"** includes depositary and settlement services provided to participants in the on-exchange and OTC markets, OTC transaction registration services (repository services), collateral management services and information services.

Operating segment **"Other services"** includes the Group's results from information products, software and technical services provision and unallocated income and expense.

Software, technical and information services include a wide range of professional instruments used for access to the Exchange markets, electronic trade based on modern exchange trade technologies, real time market data, trading results data and indices.

Less than 1% of the Group's income from external clients is earned outside of the Russian Federation. Less than 1% of the Group's non-current assets are situated outside of the Russian Federation. The business of the Group on the territory of the Republic of Kazakhstan does not have any significant influence on the financial statements of the Group. Therefore, it is not distinguished as a separate operating segment.

Financial results of the operating segments are defined before the income tax expense. Therefore, the income tax is not allocated to operating segments.

It became feasible to allocate operating profits to operating segments due to the introduction of the ERP system.

Segment reports and the segment financial results provided to Management of the Group for analysis are prepared according to the International Financial Reporting Standards and are adjusted for intersegment transfers. Management of the Group evaluates the segment financial results, using the segment total income and operating profit figures, taking into account differences in products and services of different segments.

(in millions of Russian rubles, unless otherwise indicated)

29. Operating Segments (continued)

The information on income and expenses of the Group broken down into operating segments for the year ended December, 2017 is provided below.

	Year ended December 31, 2017				
	Trading services	**Clearing**	**Depositary**	**Other services**	**Total**
INCOME					
Commission income	8 705,0	6 881,6	4 278,2	1 342,8	21 207,6
Net interest income	6 027,7	9 144,9	2 112,7	-	17 285,3
Other operating income	-	-	-	46,0	46,0
Total income	**14 732,7**	**16 026,5**	**6 390,9**	**1 388,8**	**38 538,9**
EXPENSES					
Personnel expenses	(2 807,0)	(1 087,5)	(1 769,7)	(488,7)	(6 152,9)
Administrative and other operating expenses,	(3 706,3)	(1 043,4)	(1 990,4)	(538,8)	(7 278,9)
Incl. depreciation and amortisation	*(1 516,1)*	*(467,0)*	*(840,7)*	*(128,7)*	*(2 952,5)*
Total expenses	**(6 513,3)**	**(2 130,9)**	**(3 760,1)**	**(1 027,5)**	**(13 431,8)**
Operating profit before tax: Total income less total expenses	**8 219,4**	**13 895,6**	**2 630,8**	**361,3**	**25 107,1**

As at December 31, 2016, the Group comprised a single operating segment.

Comparative information for 2016 is not disclosed in these financial statements due to its non-availability.

30. Risk Management Policies

Risk management is an integral part of the Group’s activities. Moscow Exchange Group distinguishes the following significant risks: liquidity, market, credit, operational. 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 Group’s risk management policies in relation to each significant risk is as follows.

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 Group'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.

30. Risk Management Policies (continued)

Liquidity risk (continued)

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

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

Liquidity risk management plays an important role in the whole risk management system and includes such procedures as: forecasting/monitoring payment flow and liquidity ratios, planning measures to recover the required liquidity level considering unfavourable and crisis situations, ensuring an optimal structure of assets in accordance with the resource base, taking into account the maturities of fund sources and their volumes when allocating assets to financial instruments.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Management of the Group expects that the cash flows from certain financial assets will be different from their contractual terms either because the Group 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.

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

(in millions of Russian rubles, unless otherwise indicated)

30. 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	More than 5 years	Maturity undefined	December 31, 2017 Total
FINANCIAL ASSETS							
Cash and cash equivalents	273 248,6	-	-	-	-	-	**273 248,6**
Financial assets at fair value though profit or loss	413,6	-	-	-	-	-	**413,6**
Due from financial institutions	7 203,7	31 083,5	15 860,6	-	-	6 144,1	**60 291,9**
Central counterparty financial assets	2 110 096,1	103 121,7	216 866,0	-	-	-	**2 430 083,8**
Investments available-for-sale	189 057,9	7 035,7	14 169,1	4 020,9	722,4	126,2	**215 132,2**
Other financial assets	569,1	118,7	47,1	-	-	-	**734,9**
Total financial assets	**2 580 589,0**	**141 359,6**	**246 942,8**	**4 020,9**	**722,4**	**6 270,3**	**2 979 905,0**
FINANCIAL LIABILITIES							
Balances of market participants	454 862,1	-	-	-	-	6 144,1	**461 006,2**
Central counterparty financial liabilities	2 110 096,1	103 121,7	216 866,0	-	-	-	**2 430 083,8**
Distributions payable to holders of securities	2 507,8	-	-	-	-	-	**2 507,8**
Margin account	384,6	-	-	-	-	-	**384,6**
Other financial liabilities	729,6	83,5	808,9	1 186,3	-	-	**2 808,3**
Total financial liabilities	**2 568 580,2**	**103 205,2**	**217 674,9**	**1 186,3**	**-**	**6 144,1**	**2 896 790,7**
Liquidity gap	**12 008,8**	**38 154,4**	**29 267,9**	**2 834,6**	**722,4**	**126,2**	
Cumulative liquidity gap	**12 008,8**	**50 163,2**	**79 431,1**	**82 265,7**	**82 988,1**	**83 114,3**	

(in millions of Russian rubles, unless otherwise indicated)

30. 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	December 31, 2016 Total
FINANCIAL ASSETS						
Cash and cash equivalents	380 516,6	-	-	-	-	**380 516,6**
Financial assets at fair value though profit or loss	0,4	-	-	-	-	**0,4**
Due from financial institutions	8 252,6	47 894,4	58,7	-	4 560,7	**60 766,4**
Central counterparty financial assets	1 429 932,5	303 331,3	-	-	-	**1 733 263,8**
Investments avaliable-for-sale	206 225,0	121,3	-	12 011,9	138,0	**218 496,2**
Other financial assets	718,8	100,8	-	-	-	**819,6**
Total financial assets	**2 025 645,9**	**351 447,8**	**58,7**	**12 011,9**	**4 698,7**	**2 393 863,0**
FINANCIAL LIABILITIES						
Balances of market participants	566 392,1	-	-	-	4 560,7	**570 952,8**
Central counterparty financial liabilities	1 429 932,5	303 331,3	-	-	-	**1 733 263,8**
Distributions payable to holders of securities	2 952,3	-	-	-	-	**2 952,3**
Other financial liabilities	390,9	1 781,8	366,7	289,3	-	**2 828,7**
Total financial liabilities	**1 999 667,8**	**305 113,1**	**366,7**	**289,3**	**4 560,7**	**2 309 997,6**
Liquidity gap	**25 978,1**	**46 334,7**	**(308,0)**	**11 722,6**	**138,0**	
Cumulative liquidity gap	**25 978,1**	**72 312,8**	**72 004,8**	**83 727,4**	**83 865,4**	

(in millions of Russian rubles, unless otherwise indicated)

30. Risk Management Policies (continued)

Liquidity risk (continued)

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

The Group presents available-for-sale securities included in CBR Lombard list as matured in one month.

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, as well as due to the low liquidity of the market for the purpose of the liquidation / restructuring of the market position of the defaulted clearing participant. The key components of market risk are interest and currency risks.

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 Group'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.

Management of the relevant Group entities is responsible for asset-liability management regarding relevant individual Group entities.

Designated functional units within individual Group entities and at the Group level are responsible for interest rate risk management.

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

The majority of the Group'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, 2017 and December 31, 2016, and a reasonably possible changes of 150 bps. Corresponding negative and positive results shown on the yield curve are as follows:

	Year ended December 31, 2017		Year ended December 31, 2016	
	Net profit	**Equity**	**Net profit**	**Equity**
150 bps parallel rise	-	(8 004,8)	-	(4 081,4)
150 bps parallel fall	-	7 815,7	-	3 459,7

(in millions of Russian rubles, unless otherwise indicated)

30. Risk Management Policies (continued)

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 Group are subject to the influence of such fluctuations. The main source of currency risk are open foreign currency positions.

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

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

The Group's exposure to foreign currency exchange rate risk is presented in the tables below:

	RUB	**USD**	**EUR**	**Other currencies**	**December 31, 2017, Total**
FINANCIAL ASSETS					
Cash and cash equivalents	82 764,9	40 506,8	122 736,9	27 240,0	**273 248,6**
Due from financial institutions	6 839,0	52 264,0	-	1 188,9	**60 291,9**
Central counterparty financial assets	2 029 680,1	382 205,3	18 198,4	-	**2 430 083,8**
Investments available-for-sale	123 471,4	60 927,7	30 730,7	2,4	**215 132,2**
Other financial assets	625,0	56,2	5,4	48,3	**734,9**
Total financial assets	**2 243 380,4**	**535 960,0**	**171 671,4**	**28 479,6**	**2 979 491,4**
FINANCIAL LIABILITIES					
Balances of market participants	121 812,2	138 070,1	173 940,8	27 183,1	**461 006,2**
Central counterparty financial liabilities	2 029 680,1	382 205,3	18 198,4	-	**2 430 083,8**
Distributions payable to holders of securities	2 445,8	61,0	1,0	-	**2 507,8**
Margin account	-	384,6	-	-	**384,6**
Other financial liabilities	2 649,5	35,2	96,1	21,2	**2 802,0**
Total financial liabilities	**2 156 587,6**	**520 756,2**	**192 236,3**	**27 204,3**	**2 896 784,4**
Derivatives	**(4 379,4)**	**(15 879,5)**	**21 890,0**	**(1 223,8)**	**407,3**
Open position	**82 413,4**	**(675,7)**	**1 325,1**	**51,5**	

(in millions of Russian rubles, unless otherwise indicated)

30. Risk Management Policies (continued)

Currency risk (continued)

	RUB	USD	EUR	Other currencies	December 31, 2016, Total
FINANCIAL ASSETS					
Cash and cash equivalents	59 308,0	125 058,0	190 898,4	5 252,2	**380 516,6**
Financial assets at fair value though profit or loss	0,4	-	-	-	**0,4**
Due from financial institutions	9 040,9	48 922,3	2 798,5	4,7	**60 766,4**
Central counterparty financial assets	1 309 701,6	419 233,3	4 328,9	-	**1 733 263,8**
Investments avaliable-for-sale	128 650,1	71 484,8	18 358,7	2,6	**218 496,2**
Other financial assets	654,4	86,6	6,6	72,0	**819,6**
Total financial assets	**1 507 355,4**	**664 785,0**	**216 391,1**	**5 331,5**	**2 393 863,0**
FINANCIAL LIABILITIES					
Balances of market participants	109 037,8	244 943,2	211 719,3	5 252,5	**570 952,8**
Central counterparty financial liabilities	1 309 701,6	419 233,3	4 328,9	-	**1 733 263,8**
Distributions payable to holders of securities	2 804,1	34,6	9,0	104,6	**2 952,3**
Other financial liabilities	2 581,7	171,9	69,1	6,0	**2 828,7**
Total financial liabilities	**1 424 125,2**	**664 383,0**	**216 126,3**	**5 363,1**	**2 309 997,6**
Open position	**83 230,2**	**402,0**	**264,8**	**(31,6)**	

The following exchange rates are applied during the period:

	December 31, 2017		December 31, 2016	
	USD	**EUR**	**USD**	**EUR**
Minimum	55,8453	59,6124	60,2730	63,0214
Maximum	60,7503	71,9527	83,5913	91,1814
Average	58,3077	66,0215	66,8335	73,9924
Year-end	57,6002	68,8668	60,6569	63,8111

(in millions of Russian rubles, unless otherwise indicated)

30. Risk Management Policies (continued)

Currency risk (continued)

In addition to projecting and analysing its earnings and debt profile by currency, the Group reviews sensitivities to movements in exchange rates which are appropriate to market conditions. The Group has considered movements in the Euro and the US Dollar over the year ended 31 December, 2017 and year ended 31 December, 2016, and has concluded that the following movements in rates are reasonable levels to measure the risk to the Group:

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

The impact of these movements on post-tax profit and equity for the years ended 31 December, 2017 and 31 December, 2016, is set out in the table below:

	December 31, 2017		December 31, 2016	
	USD	EUR	USD	EUR
	6%	16%	23%	23%
Ruble appreciation	32,4	(169,6)	(74,0)	(48,7)
Ruble depreciation	(32,4)	169,6	74,0	48,7

Credit risk

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

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

The Group 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 counterparties financial conditions, analysis of the macroeconomic environment of counterparties' activities, the level of information transparency, business reputation and other financial and non-financial factors. The Group has developed and constantly improves an internal ratings system, providing a prudent assessment of its counterparties and the level of accepted credit risk.

(in millions of Russian rubles, unless otherwise indicated)

30. Risk Management Policies (continued)

Credit risk (continued)

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

To reduce credit risk the Group applies specific requirements to the financial conditions of its counterparties and to the types and quality of collateral accepted by the Group. Accepted collateral includes liquid securities and cash contributions in Rubles and foreign currencies. Eligible types of collateral depend on the market and the type of exposure. To mitigate credit risk from its CCP activities the Group has introduced a multi-level default waterfall structure in compliance with the highest international standards and consisting of various lines of defence applicable in case of a clearing participant default.

Maximum credit risk exposure

The Group's maximum exposure to credit risk equals to the carrying value of assets that bear credit risk.

As at December 31, 2017 included into other assets are overdue receivables of RUB 23,3 million (December 31, 2016: RUB 41,7 million).

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

As at December 31, 2017 and 2016, balances with the CBR are classified at the sovereign credit rating level of the Russian Federation.

Tables below do not include equity instruments.

The following table details the credit ratings of the financial assets held by the Group as at December 31, 2017:

	AA	**A**	**BBB**	**Less BBB-**	**Not rated**	**December 31, 2017 Total**
FINANCIAL ASSETS:						
Cash and cash equivalents	40 858,3	31 655,8	86 358,8	114 232,4	138,4	**273 243,7**
Financial assets at fair value though profit or loss	404,3	-	-	-	9,3	**413,6**
Due from financial institutions	793,0	-	1 201,4	58 297,5	-	**60 291,9**
Central counterparty financial assets	-	60,1	6 995,9	2 038 136,7	384 891,1	**2 430 083,8**
Investments available-for-sale	-	473,7	14 366,4	200 165,9	-	**215 006,0**
Other financial assets	24,2	2,1	30,6	250,7	427,3	**734,9**

(in millions of Russian rubles, unless otherwise indicated)

30. Risk Management Policies (continued)

Credit risk (continued)

The following table details the credit ratings of financial assets held by the Group as at December 31, 2016:

	AA	A	BBB	Less BBB-	Not rated	December 31, 2016 Total
FINANCIAL ASSETS:						
Cash and cash equivalents	197 020,2	30 601,8	24 490,2	128 396,3	4,1	**380 512,6**
Financial assets at fair value though profit or loss	-	-	0,4	-	-	**0,4**
Due from financial institutions	4 560,7	-	8 244,9	47 960,8	-	**60 766,4**
Central counterparty financial assets	-	-	545,2	1 403 347,5	329 371,1	**1 733 263,8**
Investments available-for-sale	-	-	98 254,3	118 880,4	1 223,5	**218 358,2**
Other financial assets	15,9	0,1	28,8	295,9	478,9	**819,6**

Geographical concentration

All assets of the Group consist of balances on operations in the Russian Federation, except for:

- Correspondent accounts and deposits with top OECD banks, which are reported in cash and cash equivalents (Note 11);
- Balances with top OECD banks, which are reported in balances due from financial institutions of as at December 31, 2017: RUB 10 638,6 million (December 31, 2016: RUB 4 560,7 million) (Note 13);
- Reported in investments available-for-sale are balances in OECD in the amount of RUB 43 533,6 million as of December 31, 2017: (December 31, 2016: RUB 36 233,2 million)
- Balances of market participants from OECD comprise RUB 1 315,5 million as of December 31, 2017 (December 31, 2016: RUB 1 051,2 million).

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.

The 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.

30. Risk Management Policies (continued)

Operational risk (continued)

Operational risk management includes reputational, compliance and legal risks governance as well. Moreover, strategic risk (risk of non-achievement of strategic goals within certain deadline or resources) is also monitored and managed under the operational risk management framework.

Legal risk

Legal risk is associated with losses due to breaches of contractual obligations, trial, criminal and administrative liability of the group entities 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.

Compliance risk

Compliance risk is the risk of losses resulting from Group activities being inconsistent with the law, the Charter and internal regulations. Compliance risk is solely managed by Internal Control department that takes the following actions in order to prevent losses due to compliance risk realization:

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

Reputational risk

Reputational risk is the risk of losses due to the negative public view on the operational (technical) stability of the Group, its service quality and business in general. In order to avoid such losses the Group 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 Group from operational risk at the same time help to decrease the level of reputational risk.

(in millions of Russian rubles, unless otherwise indicated)

31. Offsetting of Financial Instruments

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

Direct and reverse repo transactions of CCP with individual counterparties are subject to clearing rules that create a contingent right of set-off that does not qualify for offsetting. Clearing participants are required to deposit collateral in the form of cash or securities for current deals and make contribution to a risk-covering fund, as described in Note 30. Clearing rules give the Group right to use these amounts under certain conditions (e.g. in case of default). However, offsetting criteria is not met as there is no intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Reverse repo transactions with financial institutions are subject to master agreement that gives the Group right to settle amounts relating to these transactions on a net basis under certain conditions (e.g. in case of default), but offsetting criteria is not met as there is no enforceable right to set off in the normal course of business.

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

	December 31, 2017			Related amounts not set off in the statement of the financial position		
	Gross claims	**Gross liabilities**	**Net amount presented in financial statements**	**Financial instruments**	**Cash collateral received**	**Net amount**
Due from financial institutions (Reverse repo receivables from financial institutions)	46 935,2	-	46 935,2	(46 935,2)	-	-
Central counterparty financial assets (repo transactions)	2 428 117,0	-	2 428 117,0	(2 428 117,0)	-	-
Central counterparty financial assets (currency transactions)	3 234,3	(1 267,5)	1 966,8	-	(1 966,8)	-
Central counterparty financial liabilities (repo transactions)	-	(2 428 117,0)	(2 428 117,0)	2 428 117,0	-	-
Central counterparty financial liabilities (currency transactions)	984,7	(2 951,5)	(1 966,8)	-	-	(1 966,8)
Margin account under reverse repo	-	(384,6)	(384,6)	-	-	(384,6)

(in millions of Russian rubles, unless otherwise indicated)

31. Offsetting of Financial Instruments (continued)

	December 31, 2016			Related amounts not set off in the statement of the financial position		
	Gross claims	**Gross liabilities**	**Net amount presented in financial statements**	**Financial instruments**	**Cash collateral received**	**Net amount**
Due from financial institutions (Reverse repo receivables from financial institutions)	47 887,7	-	47 887,7	(47 887,7)	-	-
Central counterparty financial assets (repo transactions)	1 730 377,0	-	1 730 377,0	(1 730 377,0)	-	-
Central counterparty financial assets (currency transactions)	9 079,3	(6 192,5)	2 886,8	-	(2 886,8)	-
Central counterparty financial liabilities (repo transactions)	-	(1 730 377,0)	(1 730 377,0)	1 730 377,0	-	-
Central counterparty financial liabilities (currency transactions)	3 060,9	(5 947,7)	(2 886,8)	-	-	(2 886,8)