NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

(in millions of Russian rubles, unless otherwise indicated)

Organization

Public Joint-Stock Company Moscow Exchange MICEX-RTS (Moscow Exchange) is a stock exchange based on Moscow, Russian Federation. It was established as closed joint-stock company "Moscow Interbank Currency Exchange" (MICEX) on 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, 2018	December 31, 2017
		Voting rights, %	Voting rights, %
JSC Central Counterparty National Clearing Centre (former Bank National Clearing Centre JSC) (NCC)	Clearing operations	100%	100%
JSC National Settlement Depository (NSD)	Depository, clearing, repository and settlement services	99,997%	99,997%
JSC National Mercantile Exchange (NAMEX)	Commodities exchange operations	65,08%	65,08%
OJSC Evraziyskaia Trading System Commodity Exchange (ETS)	Commodities exchange operations	60,82%	60,82%
MICEX Finance LLC (MICEX Finance)	Financial activities	100%	100%
MOEX Innovations LLC (MOEX Innovations)	Fintech start-ups, financial activities	100%	100%
MOEX Information Security LLC (MOEX Information Security)	Information security services	100%	-

NCC performs functions of a clearing organization and central counterparty on the financial market and holds licences 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 on May 2006 to the assignment of a new status, the NCC functioned as a bank with the name Bank National Clearing Centre JSC.

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 LEI codes. NSD holds licences for depository, repository, clearing and settlement operations issued by the Central Bank of Russia (CBR).

NAMEX is a commodity exchange, which has a licence for organisation of trading on commodities on Russia.

ETS is a commodity exchange, which has a licence for organisation of trading on commodities on Kazakhstan.

MICEX Finance is established for facilitating financial activities of the Group.

MOEX Innovations concentrates on start-ups development on the fintech sphere.

MOEX Information Security was established on Russia on October 2018 for providing information security services.

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

The Group has 1 710 employees as at December 31, 2018 (December 31, 2017: 1 662 employees).

The financial statements approval. Consolidated Financial Statements of the Group were approved for issue by the Management on March 6, 2019.

Basis of Presentation and Significant Accounting Policies

STATEMENT OF COMPLIANCE

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

BASIS OF PRESENTATION

These Consolidated Financial Statements are presented on millions of Russian rubles, unless otherwise indicated. These consolidated financial statements have been prepared assuming that the Group is a going concern and will continue operation for the foreseeable future. These Consolidated Financial Statements have been prepared on on the historical cost basis except for certain financial assets and liabilities that are measured at fair value.

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

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

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

The accounting policies adopted by the Group on the preparation of these Consolidated Financial Statements are consistent with those followed on the preparation of the Group's Consolidated Financial Statements for the year ended December 31, 2017, except for the accounting policies and impact of the adoption of the following new and amended Standards and Interpretations:

IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers (and the related Clarifications)*
Amendments to IAS 40	*Transfers of Investment Property*
Amendments to IFRSs	*Annual Improvements to IFRS Standards 2014-2016 Cycle*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*

IMPACT OF INITIAL APPLICATION OF IFRS 9 FINANCIAL INSTRUMENTS

In the current year, the Group has applied IFRS 9 *Financial Instruments* (as revised on July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on on or after January 1, 2018. The transition provisions of IFRS 9 allow the Group not to restate comparatives. Corresponding information was not restated, as the modified retrospective approach was applied on transition, which allows recognition of differences to to be accounted for on the opening retained earnings at the beginning of the period. Additionally, the Group adopted consequential amendments to to IFRS 7 *Financial Instruments: Disclosures* that were applied to the disclosures for 2018.

IFRS 9 introduced new requirements for:

1. The classification and measurement of financial assets and financial liabilities,
2. Impairment of financial assets, and
3. General hedge accounting.

Details of these new requirements as well as their impact on the Group's Consolidated Financial Statements are described below.

Interest income and interest expense

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at fair value through profit or loss (FVTPL) are recognized on 'Interest and other finance income' and 'Interest expense' on the profit or loss using the effective interest method.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognized on profit or loss at initial recognition.

The interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)). For financial assets originated or purchased credit-impaired (POCI) the EIR reflects the ECLs on determining the future cash flows expected to be received from the financial asset.

Fee and commission income and expense

Fee and commission income and expense include fees other than those that are an integral part of EIR (see above). Revenue for services provided over a period is recognized pro rata over the contractual term and consists of commission income on operations with long-term exchange instruments, listing fees, depository fees, and other.

Fee and commission expenses with regards to services are accounted for as the services are received.

Financial assets

All financial assets are measured at fair value at initial recognition, including transaction costs, except for those financial assets classified as at fair value through profit or loss (further – FVTPL). Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately on profit or loss.

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

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

An assessment of business models for managing financial assets is performed at the date of initial application of IFRS 9 to determine the classification of a financial asset. The business model is applied prospectively to all financial assets existing at the date of initial application of IFRS 9. An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Group determines the business models on the basis that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business models do not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

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

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

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

At initial recognition of a financial asset, the Group determines whether newly recognised financial asset is part of an existing business model or whether it reflects the commencement of a new business model, if the asset does not match the existing business models. The Group reassesses its business models every reporting period to determine whether they have changed or not since the preceding period. For the current reporting period, the Group has not identified a change on its business models.

Debt instruments at amortised cost or at FVTOCI

The Group assesses the classification and measurement of a financial asset based on contractual cash flow characteristics of the asset and the Group's business model for managing the asset.

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

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

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

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

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

Financial assets at FVTPL are:

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

The Group does not designate assets at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised on profit or loss.

Reclassifications

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day following the change on business model that results on reclassification the Group's financial assets. Changes on contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

Impairment

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

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

No loss allowances for expected credit losses are recognised on equity investments, financial assets arising from central counterparty (CCP) activity.

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

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

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

ECLs are a probability-weighted estimate of the present value of potential credit losses. ECLs are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios. The Group measures ECLs on an individual basis or on a collective basis for portfolios of debtors that share similar value and economic risk characteristics.

The Group does not form any loss allowance on ECLs for CCP activities. The CCP is acting as an intermediary between the parties: i.e. as a seller for each buyer and as a buyer for each seller, so that replacing their contractual relations between each other with relevant contracts with a central counterparty. CCP assets and liabilities are simultaneously reflected on the Group's statement of financial position due to the following:

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

The risks of non-fulfilment or improper fulfilment of clearing participants obligations on the CCP deals are managed using the following risk-management system measures, organised according to the federal law as of 07.02.2011 № 7-FZ "On clearing, clearing activities and the central counterparty":

- setting the requirements for individual and collective clearing collateral to mitigate expected losses on case of non-fulfilment or improper fulfilment of clearing participants obligations;
- forming the CCP's guarantee fund – part of net assets designated according to the Clearing Rules to mitigate possible losses caused by non-fulfilment or improper fulfilment of clearing participants obligations;
- conducting regular stress-tests of the CCP capital adequacy, including the control of statutory ratios calculation;
- limitation of the CCP's liabilities.

Definition of default

Critical to the determination of ECLs is the definition of default. The definition of default is used on measuring the amount of ECLs and on the determination of whether the loss allowance is based on 12-month or lifetime ECLs, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase on credit risk.

The Group considers the following as constituting an event of default:

- the counterparty has gone bankrupt;
- a third party has filed a claim with the court to call the counterparty bankrupt and it has been accepted for hearing;
- the counterparty is permanently insolvent, i.e. has obligations to the Group that are past due for over 90 days; or
- the borrower's licence has been revoked.

Significant increase on credit risk

The Group monitors all financial assets that are subject to the impairment requirements to assess whether there has been a significant increase on credit risk since initial recognition. If there has been a significant increase on credit risk the Group will measure the loss allowance based on lifetime ECL.

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

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

Probability of default (PD)

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

To determine PD the Group uses:

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

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

Modification and derecognition of financial assets

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

When a financial asset is modified the Group assesses whether this modification results on derecognition. In accordance with the Group's policy a modification results on derecognition when it gives rise to substantially different terms. To determine whether the modified terms differ substantially from the original contractual terms the Group considers the following qualitative factors:
a) contractual cash flows after modification are no longer SPPI;
b) change on currency;
c) change of counterparty;
d) the extent of change on interest rates;
e) maturity.

If these do not clearly indicate a substantial modification, then quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference on present value is greater than 10% the Group deems the arrangement is substantially different leading to derecognition.

In the case when the financial asset is derecognised the loss allowance for ECLs is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except on the eventual occasions where the new asset is considered to be originated-credit impaired. The Group monitors credit risk of modified financial assets by evaluating qualitative and quantitative information.

When the contractual terms of a financial asset are modified and the modification does not result on derecognition, the Group determines whether the credit risk associated with the financial asset has increased significantly since initial recognition by comparing:

- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- the remaining lifetime PD at the reporting date based on the modified terms.

Where a modification does not lead to derecognition the Group calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included on calculating the expected cash shortfalls from the original asset.

The Group derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest on the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset.

On derecognition of a financial asset on its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised on OCI and accumulated on equity is recognised on profit or loss. The cumulative gain/loss on equity investment designated as measured at FVTOCI, previously recognised on OCI is not subsequently reclassified to profit or loss.

On derecognition of a financial asset other than on its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain/loss allocated to it that had been recognised on OCI is recognised on profit or loss. A cumulative gain/loss that had been recognised on OCI is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognised on OCI is not subsequently reclassified to profit or loss.

Write-off

Financial assets are written off when the Group has no reasonable expectations of recovering the financial asset (either on its entirety or a portion of it). This is the case when the Group determines that the counterparty does not have assets and/or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result on impairment gains.

Presentation of allowance for ECL on the statement of financial position

Loss allowances for ECL are presented on the statement of financial position as follows:

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognised on the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount on the investments revaluation reserve.

The table below illustrates the classification and measurement of financial assets and financial liabilities and the corresponding effect on equity and deferred tax under IFRS 9 and IAS 39 at the date of initial application January 1, 2018:

	Original measurement category under IAS 39	New measurement category under IFRS 9	Original carrying amount under IAS 39	Additional loss allowance under IFRS 9	Reclassification of carrying amount IFRS 9	New carrying amount under IFRS 9
Cash and cash equivalents	Loans and receivables	Financial assets at AC	273 248,6	(5,2)	-	273 243,4
Financial assets at fair value through profit or loss	Financial assets at FVTPL	Financial assets at FVTPL	413,6	-	7 639,4	8 053,0
Due from financial institutions	Loans and receivables	Financial assets at AC	63 606,9	(23,7)	-	63 583,2
Central counterparty financial assets	Loans and receivables (repo) / assets at FVTPL (currency)	Financial assets at AC (repo) / assets at FVTPL (currency)	2 430 083,8	-	-	2 430 083,8
Financial assets at fair value through other comprehensive income	Available-for-sale	Financial assets at FVOCI	215 132,2	-	(7 635,1)	207 497,1
Other financial assets	Loans and receivables	Financial assets at AC	734,9	(49,7)	-	685,2
Balances of market participants	Financial liabilities at AC	Financial liabilities at AC	466 860,2	-	-	466 860,2
Central counterparty financial liabilities	Financial liabilities at AC (repo) / FVTPL (currency)	Financial liabilities at amortised cost (repo) / FVTPL (currency)	2 430 083,8	-	-	2 430 083,8
Distributions payable to holders of securities	Financial liabilities at AC	Financial liabilities at AC	2 507,8	-	-	2 507,8
Margin account	Financial liabilities at AC	Financial liabilities at AC	384,6	-	-	384,6
Other financial liabilities	Financial liabilities at FVTPL (derivatives) / AC (other)	Financial liabilities at FVTPL (derivatives) / AC (other)	2 808,3	-	-	2 808,3
Deferred tax asset	n/a	n/a	243,4	15,7	(0,9)	258,2
Corresponding lines on Equity:						
Investments revaluation reserve	n/a	n/a	1 357,0	270,9	(9,6)	1 618,3
Retained earnings	n/a	n/a	86 546,4	(332,1)	13,0	86 227,3
Non-controlling interest	n/a	n/a	176,6	(1,7)	-	174,9

The additional loss allowance recognised upon the initial application of IFRS 9 as disclosed above resulted entirely from a change on the measurement attribute of the loss allowance relating to each financial asset (Note 11). The change on measurement category of the different financial assets had no significant impact on their respective carrying amounts on initial application. There were no financial assets or liabilities which the Group elected to designate as at FVTPL at the date of initial application. There were no equity instruments the changes on fair value of which the Group irrevocably elected to present on other comprehensive income.

Reclassification of carrying amount was due to the following:
- movement of equity investments from AFS to FVTPL on the amount of RUB 130,5 million;
- movement of debt instruments with contractual cash flows that are not SPPI from AFS to FVTPL on the amount of RUB 7 508,9 mln.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:
- it has been incurred principally for the purpose of repurchasing it on the near term; or

- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, on accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire hybrid (combined) contract to be designated as at FVTPL.

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

Other financial liabilities

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

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized on profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised on profit or loss as the modification gain or loss within other gains and losses.

Derivative financial instruments

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

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

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

THE ADOPTION OF NEW AND REVISED STANDARDS EXCEPT IFRS 9 FINANCIAL INSTRUMENTS

The adoption of the following new standards and amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) has not had any material impact on the disclosures or on the amounts reported on these financial statements:

IFRS 15 Revenue from Contracts with Customers

The new standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed.

Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations on the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations on 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 on IFRS 15 to deal with specific scenarios.

Amendments to IAS 40 Transfers of Investment Property

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received on advance on a foreign currency which resulted on 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 on advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

THE ACCOUNTING POLICIES, PRESENTATION AND METHODS OF COMPUTATION THAT HAVE BEEN FOLLOWED ON THE CURRENT YEAR AS WERE APPLIED ON THE PREPARATION OF THE GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

Inflation accounting

The Russian economy was considered hyperinflationary until December 31, 2002. As such, the Group applied IAS *29 Financial Reporting on 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 on 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 on 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 on 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 on 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 on 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 on equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit on profit or loss and reclassifies the parent's share of components previously recognised on other comprehensive income to profit or loss.

Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred on 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 on exchange for control of the acquiree. Acquisition-related costs are recognised on 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 on the acquiree, and the fair value of the acquirer's previously held equity interest on 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 on the acquiree and the fair value of the acquirer's previously held interest on the acquiree (if any), the excess is recognised immediately on profit or loss as a bargain purchase gain.

When a business combination is achieved on stages, the Group's previously held equity interest on 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 on profit or loss. Amounts arising from interests on the acquiree prior to the acquisition date that have previously been recognised on other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

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 on the unit. Any impairment loss for goodwill is recognised directly on profit or loss on the Consolidated Statement of Profit or Loss. An impairment loss recognised for goodwill is not reversed on subsequent periods. On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included on 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 on associates

Associates are entities on 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 on associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes on the carrying value reflect the post-acquisition changes on the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised on profit or loss, and its share of movements on reserves is recognised on other comprehensive income. However, when the Group's share of losses on an associate equals or exceeds its interest on 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 on the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Cash and cash equivalents

Cash and cash equivalents on 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 on 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 on cash and cash equivalents.

Precious metals

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

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 on 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 on a business combination

Intangible assets acquired on 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 on 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. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes on 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 on the period on which it is incurred.

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied on 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 on profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated on 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 on use. In assessing value on 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 on profit or loss, unless the relevant asset is carried at a revalued amount, on 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) on prior years. A reversal of an impairment loss is recognised immediately on profit or loss, unless the relevant asset is carried at a revalued amount, on 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.

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 on the countries where the Group operates and generates taxable income.

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

Deferred income 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 on 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 on subsidiaries, associates and interests on 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 on 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 on 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 on individual contracts.

The cost of equity-settled transactions is recognised, together with a corresponding increase on equity within Share-based payments reserve, over the period on 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 on cumulative expense recognised as at the beginning and end of that period (Note 10).

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 on fair value recognised on profit or loss for the year.

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 on the Consolidated Statement of Financial Position but are disclosed unless the possibility of any outflow on settlement is remote. A contingent asset is not recognised on 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 on 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 on 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 on foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated on foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured on terms of historical cost on 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, on which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised on other comprehensive income and accumulated on 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 on 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.

Segment reporting

An operating segment is a component of a Group that engages on 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, 2018 and 2017, the Group comprised four operating segments (Note 34).

NEW AND REVISED IFRSS ON ISSUE BUT NOT YET EFFECTIVE

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

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

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

IFRS 16 *Leases*

General impact of application of IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment on the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 *Leases* and the related Interpretations when it becomes effective for accounting periods beginning on or after January 1, 2019. The date of initial application of IFRS 16 for the Group will be January 1, 2019.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements on IAS 17.

Impact of the new definition of a lease

The Group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease on accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before January 1, 2019.

The change on definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:
- the right to obtain substantially all of the economic benefits from the use of an identified asset; and
- the right to direct the use of that asset.

The Group will apply the definition of a lease and related guidance set out on IFRS 16 to all lease contracts entered into or modified on or after January 1, 2019 (whether it is a lessor or a lessee on the lease contract).

Impact on Lessee Accounting

Operating leases

IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Group will:
1. Recognise right-of-use assets and lease liabilities on the consolidated statement of financial position, initially measured at the present value of the future lease payments;

Recognise depreciation of right-of-use assets and interest on lease liabilities on the consolidated statement of profit or loss;

Separate the total amount of cash paid into a principal portion and interest on the consolidated cash flow statement.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted on the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment on accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

As at December 31, 2018, the Group has non-cancellable operating lease commitments of RUB 250 mln. A preliminary assessment indicates that almost all of these arrangements relate to leases other than short-term leases and leases of low-value assets, and hence the Group will recognise a right-of-use asset of RUB 250 mln and a corresponding lease liability on equal amount on respect of all these leases. The impact on profit or loss is to decrease rent and office maintenance expense within general and administrative expenses by RUB 200 mln, to increase depreciation by RUB 190 mln and to increase interest expense by RUB 10 mln.

Under IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under IFRS 16 would be to present the amount of cash paid related to leases other than short-term leases and leases of low-value assets on net cash used on financing activities.

IFRS 17 Insurance Contracts

The new Standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 *Insurance Contracts* .

The Standard outlines a General Model, which is modified for insurance contracts with direct participation features, described as the Variable Fee Approach. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.

The General Model will use current assumptions to estimate the amount, timing and uncertainty of future cashflows and it will explicitly measure the cost of that uncertainty, it takes into account market interest rates and the impact of policyholders' options and guarantees.

The Standard is effective for annual reporting periods beginning on or after January 1, 2021, with early application permitted. It is applied retrospectively unless impracticable, on which case the modified retrospective approach or the fair value approach is applied.

For the purpose of the transition requirements, the date of initial application is the start if the annual reporting period on which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.
The management of the Group do not anticipate that the application of the Standard on the future will have an impact on the Group's consolidated financial statements as the Group does not have instruments on scope of this standard.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after January 1, 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

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

Amendments to IAS 28 Long-term Interests on Associates and Joint Ventures

The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, on applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount reauired 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 on accordance with IAS 28).

The amendments apply retrospectively to annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9.

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

Annual Improvements to IFRS Standards 2015-2017

Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs

The Annual Improvements include amendments to four Standards.

IAS 12 Income Taxes

The amendments clarify that an entity should recognise the income tax consequences of dividends on profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

IAS 23 Borrowing Costs

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

IFRS 3 Business Combinations

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved on stages, including remeasuring its previously held interest (PHI) on the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

IFRS 11 Joint Arrangements

The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI on the joint operation.

All the amendments are effective for annual periods beginning on or after January 1, 2019 and generally require prospective application. Earlier application is permitted. The management of the Group do not anticipate that the application of the amendments on the future will have an impact on the Group's consolidated financial statements.

Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is on a surplus position). IAS 19 is now clear that the change on the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined on a second step and is recognised on the normal manner on other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to aetermine current service cost ana net interest for the remainder of the reporting period after the change to the plan, on the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasurea unaer IAS 19.99 with the discount rate used on the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The amendments are applied perspectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period on which the amendments to IAS 19 are first applied. The amendments to IAS 19 must be applied to annual periods beginning on or after January 1, 2019, but they can be applied earlier if an entity elects to do so.

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

IFRS 10 Consolidated Financial Statements and IAS 28 (amendments) 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 on a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised on the parent's profit or loss only to the extent of the unrelated investors' interests on that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained on 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 on the former parent's profit or loss only to the extent of the unrelated investors'interests on the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.
The management of the Group anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements on future periods should such transactions arise.

The management of the Group do not anticipate that the application of the amendments on the future will have an 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 on 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 on its income tax filings.
- if no, the entity should reflect the effect of uncertainty on determining its accounting tax position.

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

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

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

Amendments to IFRS 3 Definition of business

The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The definitions of a business and of outputs were narrowed by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs.

The amendments also remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs and add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020, and to asset acquisitions that occur on or after the beginning of that period. Earlier application is permitted. The management of the Group do not anticipate that the application of the amendments on the future will have an impact on the Group's consolidated financial statements.

Amendments to IAS 1 and IAS 8 Definition to Material

The amendments are intended to make the definition of material on IAS 1 easier to understand and are not intended to alter the underlying concept of materiality on IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material on IAS 8 has been replaced by a reference to the definition of material on IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency. The amendments are applied prospectively for annual periods beginning on or after January 1, 2020, with earlier application permitted. The management of the Group do not anticipate that the application of the amendments on the future will have an impact on the Group's consolidated financial statements.

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 on the period on which the estimate is revised if the revision affects only that period or on the period of the revision and future periods if the revision affects both current and future periods.

KEY SOURCES OF ESTIMATION UNCERTAINTY

Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective (for more details refer to Note 2). The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. The Group conducts assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change and so a prospective change to the classification of those assets.

Significant increase of credit risk

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

Probability of default

PD constitutes a key input on measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. See Note 35 for more details, including analysis of the sensitivity of the reported ECL to changes on PD resulting from changes on economic drivers.

Loss Given Default

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. See Note 2 for more details.

Provision

The companies of the Group are subject to litigation. Such litigation may lead to orders to pay against the entities of the Group. If it is more likely than not that an outflow of resources will occur, a provision will be recognised based on an estimate of the most probable amount necessary to settle the obligation if such amount is reasonably estimable. The Group determines whether there is a possible obligation from past events, evaluates the probability that an outflow will occur and estimates the potential amount of the outflow. As the outcome of litigation is usually uncertain, the judgement is reviewed continuously. See Note 30 for further information.

Impairment of goodwill and other intangible assets

Determining whether goodwill is impaired requires an estimation of the value on use of the cash-generating units to which goodwill has been allocated. The value on use calculation requires the management to estimate the future cash flows expected to arise from the cash-generating unit and a discount rate on 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 on Note 22.

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 on 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.

Based on the analysis of actual useful lives of intangible assets as at January 1, 2018 the Group adjusted the estimates on relation to remaining useful lives of intangible assets. The amendments were applied to the client base and certain types of software and licences. Should the Group not apply these amendments, amortisation of client base for the year ended December 31, 2018 would be RUB 392,1 mln lower, amortisation of software and licences for the year ended December 31, 2018 would be RUB 58,4 mln higher.

Valuation of financial instruments

For financial instruments not traded on 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 on Note 32.

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 on Note 10.

Fee and Commission Income

	Year ended December 31, 2018	Year ended December 31, 2017
Money market	6 389,8	5 650,0
Depository and settlement services	4 530,7	4 183,9
Securities market	4 444,0	3 985,0
– bonds	*2 173,5*	*1 982,5*
– equities	*1 932,2*	*1 610,2*
– listing and other services	*338,3*	*392,3*
Foreign exchange	3 990,0	3 827,0
Derivatives	2 318,9	2 012,0
Information services	792,4	769,7
Sale of software and technical services	695,9	630,7
Other	485,4	149,3
Total fee and commission income	**23 647,1**	**21 207,6**

Interest and Other Finance Income

	Year ended December 31, 2018	Year ended December 31, 2017
Gain/(loss) on financial assets at FVTPL		
Interest income	154,0	-
Net loss on financial assets at FVTPL	(8,9)	(4,9)
Total gain/(loss) on financial assets at FVTPL	**145,1**	**(4,9)**
Interest income on financial assets other than at FVTPL		
Interest income on financial assets at FVTOCI	12 336,3	-
Interest income on investments available-for-sale	-	12 391,7
Interest on cash and cash equivalents and due from financial institutions	5 450,8	3 653,4
Total interest income on financial assets other than at FVTPL	**17 787,1**	**16 045,1**
Total interest and other finance income	**17 932,2**	**16 040,2**

Interest Expense

	Year ended December 31, 2018	Year ended December 31, 2017
Interest expense on accounts of clearing participants	271,2	40,3
Interest expense on interbank loans and deposits	155,1	514,4
Interest expense on stress collateral	17,6	166,1
Interest expense on repo agreements and other	2,7	109,0
Total interest expense	**446,5**	**829,8**

Foreign Exchange Gains Less Losses

	Year ended December 31, 2018	Year ended December 31, 2017
Foreign exchange swaps	(1 757,5)	1 065,4
Net other foreign exchange gains/(losses)	70,8	(6,3)
Total foreign exchange gains less losses	**(1 686,7)**	**1 059,1**

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

Other Operating Income

	Year ended December 31, 2018	Year ended December 31, 2017
Movement on allowance for ECLs (Note 11)	117,5	-
Other operating income	75,8	46,0
Total other operating income	**193,3**	**46,0**

General and Administrative Expenses

	Year ended December 31, 2018	Year ended December 31, 2017
Amortisation of intangible assets (Note 21)	1 995,6	1 488,2
Depreciation of property and equipment (Note 20)	1 343,9	1 464,3
Equipment and intangible assets maintenance	1 205,5	1 120,1
Professional services	572,6	426,3
Taxes, other than income tax	554,3	540,0
Market makers fees	517,0	522,2
Rent and office maintenance	484,6	475,3
Advertising and marketing costs	376,1	330,8
Registrar and foreign depository services	292,3	292,2
Information services	237,6	187,7
Communication services	104,7	123,3
Business trip expenses	83,7	71,4
Loss on disposal of property, equipment and intangible assets	38,3	60,9
Security expenses	29,7	29,5
Charity	27,5	29,9
Transport expenses	19,0	16,0
Impairment of intangible assets (Note 21)	-	15,0
Impairment of other assets (Note 11)	-	8,8
Other	59,0	77,0
Total general and administrative expenses	**7 941,4**	**7 278,9**

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

Personnel Expenses

	Year ended December 31, 2018	Year ended December 31, 2017
Employees benefits except for share-based payments	5 250,8	4 932,7
Payroll related taxes	975,7	952,3
Share-based payment expense on equity settled instruments	273,3	242,2
Share-based payment expense on cash settled instruments	12,5	25,7
Total personnel expenses	**6 512,3**	**6 152,9**

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 on 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 on rights to purchase equity settled instruments:

	Number	WAEP
Outstanding at January 1, 2017	**31 133 342**	**74,60**
Granted	19 041 180	113,34
Exercised (Note 27)	(3 117 055)	64,25
Forfeited	(1 483 335)	75,10
Redeemed	(2 649 615)	64,25
Outstanding at January 1, 2018	**42 924 517**	**93,16**
Granted	12 900 000	113,86
Exercised (Note 27)	(2 058 440)	73,64
Forfeited	(2 533 334)	111,81
Redeemed	(1 498 226)	73,64
Outstanding at December 31, 2018	**49 734 517**	**98,97**

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

235 720 cash settled instruments were granted during the year ended December 31, 2018 (December 31, 2017: 507 530). The weighted average remaining contractual life is 1,02 years (December 31, 2017: 1,32 years).

80 342 cash settled instruments were exercised during the year ended December 31, 2018 with WAEP of RUB 118,86 (December 31, 2017: none).

The number of equity rights exercisable as at December 31, 2018 is 22 941 573 with WAEP of RUB 81,49 (December 31, 2017: 13 083 329 with WAEP of RUB 74,09).

The weighted average fair value of equity rights granted during the year ended December 31, 2018 was RUB 17,50 (December 31, 2017: RUB 20,75). The weighted average fair value of cash settled rights granted during the year ended December 31, 2018 was RUB 69,21 (December 31, 2017: RUB 97,77).

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

	December 31, 2018		December 31, 2017	
Exercise price	**Number outstanding**	**Weighted average remaining contractual life**	**Number outstanding**	**Weighted average remaining contractual life**
46,9-62,0	-	-	166 667	-
62,0-77,0	15 000 000	-	17 066 668	0,13
77,0-102,0	4 183 337	0,76	4 000 002	0,40
107,0-122,0	30 551 180	1,07	21 691 180	1,72
	49 734 517	**0,72**	**42 924 517**	**0,96**

The following table lists the inputs to the models used:

Assumption	Equity settled		Cash settled	
	Year ended December 31, 2018	Year ended December 31, 2017	Year ended December 31, 2018	Year ended December 31, 2017
Expected volatility	24,7%	22,4%	25,6%	22,7%
Risk-free interest rate	6,8%	7,8%	7,9%	6,9%
Weighted average share price, RUB	113,65	114,13	96,85	109,23
Dividend yield	6,5%	4,8%	6,8%	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.

Movement on Allowance for Expected Credit Losses

The information on the movement on the allowance for expected credit losses of the Group for the years ended December 31, 2018 and 2017, is provided below.

	Cash and cash equivalents	Due from credit institutions	Financial assets at FVTOCI	Other financial assets	Total
Note	*14*	*16*		*23*	
December 31, 2016	**-**	**-**	**-**	**41,7**	**41,7**
Net charge for the period	-	-	-	8,8	8,8
Write-offs	-	-	-	(27,2)	(27,2)
December 31, 2017	**-**	**-**	**-**	**23,3**	**23,3**
Effect of adoption of IFRS 9 (Note 2)	5,2	23,7	338,6	49,7	417,2
January 1, 2018 (with IFRS 9 effect)	**5,2**	**23,7**	**338,6**	**73,0**	**440,5**
Net (reversal) / charge for the period	(0,5)	12,6	(146,6)	17,0	(117,5)
Write-offs	-	-	-	(5,5)	(5,5)
December 31, 2018	**4,7**	**36,3**	**192,0**	**84,5**	**317,5**

Total net reversal of the allowance for expected credit losses of the Group for the year ended December 31, 2018 is included on other operating income within Consolidated Statement of Profit or Loss (Note 8). Net charge for the year ended December 31, 2017 is included on general and administrative expenses within Consolidated Statement of Profit or Loss (Note 9).

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

The allowance for expected credit losses of the Group consists of the loss allowance measured at an amount equal to 12-month expected credit losses for Stage 1 assets, and the loss allowance measured at an amount equal to lifetime expected credit losses for Stage 2 and Stage 3 assets. The composition of the Group's financial assets and correspondent allowances for expected credit losses by stages as at December 31 and January 1, 2018, is provided below.

	Cash and cash equivalents	Due from credit institutions	Financial assets at FVTOCI	Other financial assets	Total
Note	*14*	*16*		*23*	
December 31, 2018					
Stage 1 assets	416 395,9	95 414,1	210 752,4	968,0	723 530,4
Stage 2 assets	-	-	-	4,3	4,3
Stage 3 assets	-	-	-	34,6	34,6
Total financial assets	**416 395,9**	**95 414,1**	**210 752,4**	**1 006,9**	**723 569,3**
Allowance for Stage 1 assets	(4,7)	(36,3)	(192,0)	(49,4)	(282,4)
Allowance for Stage 2 assets	-	-	-	(0,5)	(0,5)
Allowance for Stage 3 assets	-	-	-	(34,6)	(34,6)
Total allowance for expected credit losses	**(4,7)**	**(36,3)**	**(192,0)**	**(84,5)**	**(317,5)**

	Cash and cash equivalents	Due from credit institutions	Financial assets at FVTOCI	Other financial assets	Total
Note	*14*	*16*		*23*	
January 1, 2018					
Stage 1 assets	273 248,6	63 606,9	207 497,1	706,3	545 058,9
Stage 2 assets	-	-	-	14,7	14,7
Stage 3 assets	-	-	-	37,2	37,2
Total financial assets	**273 248,6**	**63 606,9**	**207 497,1**	**758,2**	**545 110,8**
Allowance for Stage 1 assets	(5,2)	(23,7)	(338,6)	(32,8)	(400,3)
Allowance for Stage 2 assets	-	-	-	(3,0)	(3,0)
Allowance for Stage 3 assets	-	-	-	(37,2)	(37,2)
Total allowance for expected credit losses	**(5,2)**	**(23,7)**	**(338,6)**	**(73,0)**	**(440,5)**

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

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at January 1, 2018	**706,3**	**14,7**	**37,2**	**758,2**
New financial assets originated or purchased less financial assets that have been derecognized due to being redeemed or sold	254,2	-	-	254,2
Transfer to stage 1	7,5	(7,5)	-	-
Transfer to stage 3	-	(2,9)	2,9	-
Write-offs	-	-	(5,5)	(5,5)
Gross carrying amount at December 31, 2018	**968,0**	**4,3**	**34,6**	**1 006,9**
Loss allowance at December 31, 2018	**(49,4)**	**(0,5)**	**(34,6)**	**(84,5)**
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loss allowance at January 1, 2018	**32,8**	**3,0**	**37,2**	**73,0**
Net increase/(decrease) on credit risk	15,1	(0,4)	2,3	17,0
Transfer to stage 1	1,5	(1,5)	-	-
Transfer to stage 3	-	(0,6)	0,6	-
Write-offs	-	-	(5,5)	(5,5)
Loss allowance at December 31, 2018	**49,4**	**0,5**	**34,6**	**84,5**

Other Operating Expenses

Other operating expenses consist of RUB 856,9 mln due to an operational error and RUB 218,3 mln provision on a legal case. Further details are provided below.

A professional participant on the money market defaulted. During the default management procedure a partial release of collateral was triggered due to an operational error. The remaining collateral on the participant's accounts within the Group was insufficient to cover its corresponding liabilities to the Group as a result RUB 856,9 mln were paid out from the Group's funds and the related amount receivable from the participant was written off as bad debt (Note 26). In June 2018 the Group filed a claim to declare that professional participant bankrupt due to non-fulfillment of its liabilities. Bankruptcy proceedings were initiated. The Group implemented a set of measures to preclude the recurrence of such an operational event on the future.

In December 2015, a brokerage company defaulted on its liabilities to the Group that were foreclosed via standard default management procedures explicitly stipulated by the Law "On clearing, clearing activities and the central counterparty" to cover the liabilities to bona fide market and clearing participants. In September 2016, the broker was declared bankrupt. In October 2017, the bankruptcy manager filed a lawsuit with the arbitration court, seeking to declare the deals on foreclosure as void. In March 2018, the court of first appearance ruled to fulfill plaintiffs' demands. The Group responded with an appeal. The CBR filed the similar appeal against the court of first appearance' decision. In July 2018, the court of appeals ruled against the joint complaint of the Group and the CBR, fulfilling plaintiffs' demands to return RUB 873,0 mln to the general mass of bankrupt's estate. At the same time, the court recognized the Group's right to claim the abovementioned amount from the general mass of bankrupt's estate. The Group made a 100% provision and filed a cassation against the court of appeals' decision. In November 2018 the Group's cassation was satisfied. As a result the provision was decreased to 25% of the amount claimed to RUB 218,3 mln based on the examination of circumstances of the case. In January 2019 the plaintiffs applied to the Supreme Court. The Group is confident on its legal positon.

Income Tax

The Group provides for taxes based on the tax accounts maintained and prepared on 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 on the Russian Federation on taxable profits under the tax law on that jurisdiction.

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

	December 31, 2018	December 31, 2017
Tax effect from deductible temporary differences:		
Cash, cash equivalents and amounts due from financial institutions	8,1	-
Financial assets at FVTPL	0,3	6,5
Financial assets at FVTOCI	22,1	-
Investments available-for-sale	-	152,7
Property and equipment and intangible assets	21,7	12,2
Other assets	25,8	17,3
Other liabilities	739,0	521,2
Tax loss carried forward	13,4	12,1
Total tax effect from deductible temporary differences	**830,4**	**722,0**
Tax effect from taxable temporary differences:		
Financial assets at FVTPL	(181,3)	(82,7)
Financial assets at FVTOCI	(1 293,1)	-
Investments available-for-sale	-	(8,4)
Property and equipment and intangible assets	(3 039,5)	(3 292,6)
Other assets	(11,8)	(37,0)
Other liabilities	(1,0)	(1,2)
Total tax effect from taxable temporary differences	**(4 526,7)**	**(3 421,9)**
Deferred income tax assets	**125,1**	**243,4**
Deferred income tax liabilities	**(3 821,4)**	**(2 943,3)**

Reconciliation of income tax expense and accounting profit for the year ended December 31, 2018 and 2017, are explained below:

	Year ended December 31, 2018	Year ended December 31, 2017
Profit before income tax	**24 372,5**	**25 107,1**
Tax at the statutory tax rate (20%)	4 874,5	5 021,4
Tax effect of income taxed at rates different from the prime rate	(398,8)	(319,4)
Non-deductible expenses for tax purposes	176,3	149,9
Adjustments on respect of current income tax of previous years	507,3	-
Deferred tax from a previously unrecognised temporary difference of a prior period	(507,1)	-
Income tax expense	**4 652,2**	**4 851,9**
Current income tax expense	2 289,8	3 602,8
Current income tax expense related to previous years	507,3	-
Deferred taxation movement due to origination and reversal of temporary differences	1 856,4	1 255,0
Deferred taxation movement due to tax losses carried forward	(1,3)	(5,9)
Income tax expense	**4 652,2**	**4 851,9**

CASH AND CASH EQUIVALENTS

	December 31, 2018	December 31, 2017
Correspondent accounts and overnight deposits with banks	398 747,5	209 939,5
Balances with the CBR	17 641,7	63 304,2
Cash on hand	5,7	4,9
Receivables on broker and clearing operations	1,0	-
Total cash and cash equivalents	**416 395,9**	**273 248,6**
Less allowance for ECLs (Note 11)	(4,7)	-
Total cash and cash equivalents	**416 391,2**	**273 248,6**

As at December 31, 2018, the Group has balances with seven counterparties, each of which is greater than 10% of equity (December 31, 2017: six counterparties). The total aggregate amount of these balances is RUB 391 448,4 mln or 94% of total cash and cash equivalents as at December 31, 2018 (December 31, 2017: RUB 231 662,4 mln or 85% of total cash and cash equivalents).

Financial Assets at Fair Value through Profit or Loss

	December 31, 2018	December 31, 2017
Eurobonds issued by Russian companies	3 188,5	-
Derivative financial instruments	1 029,4	413,6
Shares issued by Russian companies	120,5	-
Shares issued by foreign companies	12,5	-
Total financial assets at FVTPL	**4 350,9**	**413,6**

The table below shows the analysis of derivatives of the Group as at December 31, 2018 and December 31, 2017:

	Fair value of principal amount or agreed amount		Assets – positive fair value	Liabilities – negative fair value
	Receivables	Payables		
December 31, 2018				
Currency swaps	62 302,5	(61 377,3)	1 029,4	(104,2)
December 31, 2017				
Currency swaps	26 308,5	(25 901,2)	413,6	(6,3)

As at December 31, 2018, the negative fair value of derivative financial instruments on the amount of RUB 104,2 mln is included on other liabilities (Note 26) (December 31, 2017: RUB 6,3 mln).

Due from Financial Institutions

	December 31, 2018	December 31, 2017
Reverse repo receivables from financial institutions	48 382,7	46 935,2
Interbank loans and term deposits	42 728,5	7 345,5
Correspondent accounts and deposits on precious metals	4 301,8	3 315,0
Receivables on broker and clearing operations	1,1	0,6
Mandatory cash balances with the CBR (restricted)	-	6 010,6
Total due from financial institutions	**95 414,1**	**63 606,9**
Less allowance for ECLs (Note 11)	(36,3)	-
Total due from financial institutions	**95 377,8**	**63 606,9**

As at December 31, 2018, the Group has balances with two counterparties, each of which is greater than 10% of equity (December 31, 2017: one counterparty). The amount of this balance is RUB 56 215,7 mln or 59% of the total amount due from financial institutions as at December 31, 2018 (December 31, 2017: RUB 36 802,8 mln or 58% of the total amount due from financial institutions).

As at December 31, 2018 the fair value of bonds pledged under reverse repo was RUB 59 455,3 mln (December 31, 2017: RUB 61 777,9 mln).

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 depository client, on the amount of RUB 7 805,5 mln (December 31, 2017: RUB 6 144,1 mln). Balances of market participants include balances due to this client on respect of those securities on the amount of RUB 7 805,5 mln (December 31, 2017: RUB 6 144,1 mln).

Central Counterparty Financial Assets and Liabilities

	December 31, 2018	December 31, 2017
Repo transactions	3 310 008,3	2 428 117,0
Currency transactions	2 011,9	1 966,8
Total CCP financial assets and liabilities	**3 312 020,2**	**2 430 083,8**

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, 2018 the fair value of securities purchased and sold by the Group under repo transactions is RUB 3 706 037,1 mln (December 31, 2017: RUB 2 792 270,8 mln).

As at December 31, 2018 and 2017, 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 on accordance with IAS 32. Information about financial assets offset against financial liabilities on the statement of financial position is disclosed on Note 36.

Financial Assets at Fair Value through Other Comprehensive Income

	December 31, 2018	December 31, 2017
Bonds issued by Russian Federation	133 825,1	-
Bonds issued by CBR	10 076,4	-
Bonds issued by foreign companies	25 099,6	-
Bonds issued by Russian companies	24 160,5	-
Bonds issued by Russian banks	17 590,8	-
Total financial assets at FVTOCI	**210 752,4**	**-**

Investments Available-for-Sale

	December 31, 2018	December 31, 2017
Bonds issued by Russian Federation	-	119 453,3
Bonds issued by foreign companies	-	43 529,2
Bonds issued by Russian banks	-	21 674,7
Bonds issued by Russian companies	-	21 286,3
Bonds issued by CBR	-	9 062,5
Shares issued by Russian companies	-	119,3
Shares issued by foreign companies	-	6,9
Total investments available-for-sale	**-**	**215 132,2**

Property and Equipment

	Land	Buildings and other real estate	Furniture and equipment	Construction on progress	Total
Cost					
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 on 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**
Additions	-	-	645,4	39,5	684,9
Reclassification	-	-	1,3	(1,3)	-
Disposals	-	-	(371,4)	-	(371,4)
Effect of movements on exchange rates	0,5	2,8	0,5	-	3,8
December 31, 2018	**219,8**	**5 865,9**	**7 075,0**	**47,0**	**13 207,7**
Accumulated depreciation					
December 31, 2016	**-**	**1 353,1**	**3 479,1**	**-**	**4 832,2**
Charge for the period	-	119,2	1 345,1	-	1 464,3
Disposals	-	(14,4)	(26,7)	-	(41,1)
Reclassification	-	(4,3)	4,3	-	-
Effect of movements on exchange rates	-	(0,6)	(0,6)	-	(1,2)
December 31, 2017	**-**	**1 453,0**	**4 801,2**	**-**	**6 254,2**
Charge for the period	-	118,1	1 225,8	-	1 343,9
Disposals	-	-	(365,4)	-	(365,4)
Effect of movements on exchange rates	-	0,5	0,6	-	1,1
December 31, 2018	**-**	**1 571,6**	**5 662,2**	**-**	**7 233,8**
Net book value					
December 31, 2017	**219,3**	**4 410,1**	**1 998,0**	**8,8**	**6 636,2**
December 31, 2018	**219,8**	**4 294,3**	**1 412,8**	**47,0**	**5 973,9**

As at December 31, 2018, historical cost of fully depreciated property and equipment amounts to RUB 3 243,2 mln (December 31, 2017: RUB 2 254,2 mln).

Intangible Assets

	Software and licenses	Client base	Intangible assets development	Total
Cost				
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 on exchange rates	(0,1)	-	-	(0,1)
December 31, 2017	**4 916,4**	**19 606,7**	**613,9**	**25 137,0**
Additions	956,9	-	372,6	1 329,5
Reclassification	189,7	-	(189,7)	-
Disposals	(191,0)	-	(19,6)	(210,6)
Effect of movements on exchange rates	0,1	-	-	0,1
December 31, 2018	**5 872,1**	**19 606,7**	**777,2**	**26 256,0**
Accumulated amortisation and impairment				
December 31, 2016	**1 225,1**	**4 325,4**	**-**	**5 550,5**
Charge for the period	703,9	784,3	-	1 488,2
Impairment (Note 9)	15,0	-	-	15,0
Disposals	(224,3)	-	-	(224,3)
Effect of movements on exchange rates	(0,3)	-	-	(0,3)
December 31, 2017	**1 719,4**	**5 109,7**	**-**	**6 829,1**
Charge for the period	819,2	1 176,4	-	1 995,6
Disposals	(173,2)	-	-	(173,2)
Effect of movements on exchange rates	0,2	-	-	0,2
December 31, 2018	**2 365,6**	**6 286,1**	**-**	**8 651,7**
Net book value				
December 31, 2017	**3 197,0**	**14 497,0**	**613,9**	**18 307,9**
December 31, 2018	**3 506,5**	**13 320,6**	**777,2**	**17 604,3**

Goodwill

As at December 31, 2018 and 2017, the Group's goodwill amounted to RUB 15 971,4 mln.

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:

	Trading services	Clearing	Depository	Total
Goodwill	10 774,1	3 738,7	1 458,6	15 971,4

The recoverable amounts of these CGUs have been determined based on value on use calculations, using discounted cash flow projections prepared by Management of the Group covering the seventeen-year period. Discount rate of 13,6% p.a. is applied to cash flows. Value on 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 on any CGU was identified.

Value on use calculations for each CGU are sensitive to changes on discount rates. Management of the Group carried out sensitivity analysis to determine the impacts of changes on this variable on the calculated value on use: change of 150 bps on the discount rate. As at December 31, 2018 the sensitivity analysis revealed the cumulative value on use of the segments 10,7% lower or 13,7% higher than the value on use estimated, which does not lead to any significant change of the results of goodwill impairment testing on any CGU (December 31, 2017: 10,8% lower or 15,4% higher).

Other Assets

	December 31, 2018	December 31, 2017
Other financial assets:		
Receivables on services rendered and other operations	1 006,9	758,2
Less allowance for ECLs (Note 11)	(84,5)	(23,3)
Total other financial assets	**922,4**	**734,9**
Other non-financial assets:		
Precious metals	1 976,8	2 539,0
Prepaid expenses	392,2	293,4
Non-current assets prepaid	141,1	179,2
Taxes receivable other than income tax	64,7	57,5
Other	14,1	14,9
Total other assets	**3 511,3**	**3 818,9**

BALANCES OF MARKET PARTICIPANTS

	December 31, 2018	December 31, 2017
Accounts of clearing participants	521 359,0	408 127,6
Other current and settlement accounts	58 121,3	41 119,4
Stress collateral	14 629,7	5 460,6
Accounts of clearing participants on precious metals	6 278,4	5 854,0
Risk-covering funds	6 091,4	6 298,6
Total balances of market participants	**606 479,8**	**466 860,2**

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 on 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 14, 16).

Market participants also pledge traded securities to the guarantee fund as collateral for their obligations. These securities are blocked at the participants' custody accounts on NSD. These securities are not assets of the Group and are not recognised on 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 on excess of positions of other participants on 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 on respect of the ability of the Group to guarantee proper settlements of open positions on 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 on the risk-covering funds is placed with top-rated banks (Notes 14, 16).

Distributions payable to holders of securities

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

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

Other Liabilities

	December 31, 2018	December 31, 2017
Other financial liabilities		
Payables to employees	2 185,8	2 163,2
Trade and other payables	633,7	427,6
Derivative financial liabilities (Note 15)	104,2	6,3
Tax agent liabilities regarding distributions payable to holders of securities	32,3	211,1
Dividends payable	0,2	0,1
Total other financial liabilities	**2 956,2**	**2 808,3**
Other non-financial liabilities		
Deferred commission income	439,7	533,9
Advances received	239,3	257,5
Provision (Note 12)	218,3	-
Taxes payable, other than income tax	115,4	105,7
Other	-	5,8
Total other liabilities	**3 968,9**	**3 711,2**

The movement of provision during the year ended December 31, 2018 is provided below:

	Year ended December 31, 2018
Beginning of the year	**-**
Net charge for the year (Note 12)	1 075,2
Write-offs (Note 12)	(856,9)
End of the year	**218,3**

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, 2016	**2 278 636 493**	**(33 424 960)**
Cancellation of treasury shares	(2 235 035)	2 235 035
Exercised equity instruments (Note 10)	-	3 117 055
December 31, 2017	**2 276 401 458**	**(28 072 870)**
Exercised equity instruments (Note 10)	-	2 058 440
December 31, 2018	**2 276 401 458**	**(26 014 430)**

Share premium represents an excess of contributions received over the nominal value of shares issued. The number of authorized shares during the years ended December 31, 2018 and 2017, is 12 095 322 151.

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 RUB 1 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.

During the year ended December 31, 2018 the Group distributed to employees 2 058 440 treasury shares under exercised equity instruments (December 31, 2017: 3 117 055 treasury shares) (Note 10).

Retained Earnings

During the year ended December 31, 2018 the Group declared and paid to the owners of the parent dividends for the year ended December 31, 2017 of RUB 12 320,5 mln. The amount of dividends per share is RUB 5,47 per ordinary share. Taking into account interim dividends for the six-month period ended June 30, 2017, declared and paid to the owners of the parent on the amount of RUB 5 607,4 mln, or RUB 2,49 per ordinary share, the total amount of dividends for the year ended December 31, 2017 declared reached RUB 17 928,0 mln, or RUB 7,96 per ordinary share (for the year ended December 31, 2016: RUB 17 289,7 mln; dividends per share: RUB 7,68).

The Group's distributable reserves are limited to the amount of reserves reported on 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.

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, 2018	Year ended December 31, 2017
Net profit attributable to ordinary equity holders of the parent	**19 716,5**	**20 265,7**
Weighted average number of shares	**2 249 496 134**	**2 247 441 093**
Effect of dilutive share options	6 061 693	9 139 254
Weighted average number of shares adjusted for the effect of dilution	**2 255 557 827**	**2 256 580 347**
Basic earnings per share, RUB	8,76	9,02
Diluted earnings per share, RUB	8,74	8,98

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, 2018	December 31, 2017
Less than 1 year	175,1	168,1
More than 1 year and no more than 5 years	69,8	231,3
Total operating lease commitments	**244,9**	**399,4**

Legal proceedings – From time to time and on the normal course of business, claims against the Group may be received from customers and counterparties. The Group has made a provision for potential losses on legal cases, which was included on these Consolidated Financial Statements (Note 12).

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

Fiduciary activities – The Group provides depositary services to its customers. As at December 31, 2018 and 2017, the Group had customer securities totaling 123 590 bln items and 124 304 bln items, respectively, on its nominal holder accounts.

Taxation – Major part of the Group's business activity is carried out on the Russian Federation. Russian tax, currency and customs legislation as currently on 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 on 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 on the past may be challenged at any time on 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 on which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

In 2018, amendments were introduced to the Tax Code of the Russian Federation and certain other legislative acts, which provides, among other things, an increase on the general rate of Value Added Tax (VAT) from 18% to 20%. The new rates will apply to goods, work, services, and property rights supplied starting from January 1, 2019.

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

Transactions with Related Parties

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

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

	December 31, 2018	December 31, 2017
Other liabilities	499,9	501,6
Share-based payments	427,8	309,0

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

	Year ended December 31, 2018	Year ended December 31, 2017
Short-term employee benefits	509,8	435,2
Share-based payment expense on equity settled instruments	111,4	108,9
Long-term employee benefits	98,5	91,7
Total remuneration of key management personnel	**719,7**	**635,8**

Transactions with government-related entities
As at December 31, 2018 the Russian Federation exercises significant influence over Moscow Exchange.

In the ordinary course of business the Group provides trading, clearing and depository 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, 2018 and 2017, and for the years ended December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	141 543,9	185 947,8
Due from financial institutions	4 098,9	7 190,8
Financial assets at FVTOCI	187 486,7	-
Investments available-for-sale	-	158 324,9
Other assets	396,6	214,3
LIABILITIES		
Balances of market participants	272 766,2	174 570,7
Distributions payable to holders of securities	22 210,6	1 551,0
Other liabilities	195,4	1,8

	Year ended December 31, 2018	Year ended December 31, 2017
Fee and commission income	8 087,1	6 823,1
Interest and other finance income	12 330,4	10 630,1
Interest expense	(223,3)	(687,7)
Net gain on financial assets at fair value through other comprehensive income	242,3	-
Net gain on financial assets available-for-sale	-	706,0
Other operating income	24,5	-
Administrative and other expenses	(276,2)	(166,9)

As at December 31, 2018 operations with government-related entities within central counterparty financial assets and liabilities amounted to 29,8% of total balance. (December 31, 2017: 11,4%).

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 on 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 on the principal market for the asset or liability, or on the absence of a principal market, on 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 on making the measurements:

- Level 1: Quoted market prices on 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 tables below show financial assets and liabilities measured at fair value at December 31, 2018 and 2017, by the level on the fair value hierarchy into which the fair value measurement is categorised:

				December 31, 2018
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss	3 188,5	1 029,4	133,0	**4 350,9**
CCP financial assets and liabilities (currency transactions)	2 011,9	-	-	**2 011,9**
Financial assets at FVTOCI	194 915,1	15 837,3	-	**210 752,4**
Derivative financial liabilities	-	(104,2)	-	**(104,2)**

				December 31, 2017
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at FVTPL	-	413,6	-	**413,6**
CCP 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)**

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

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

TRANSFERS BETWEEN LEVEL 1 AND LEVEL 2

For assets and liabilities that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between levels on 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, 2018	**Year ended December 31, 2017**
From Level 1 to Level 2		
Financial assets at FVTOCI	7 008,6	-
Investments available-for-sale	-	3 757,6
From Level 2 to Level 1		
Financial assets at FVTOCI	5 151,1	-
Investments available-for-sale	-	898,4

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.

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 on 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 on respect of capital management and allocation are regularly reviewed by the Supervisory Board through approval and review within annual budgets. pital

The Group entities are subject to capital requirements established by the CBR on 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 NSD and 100% for NCC as a central counterparty.

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

	Own funds		Own funds requirements		Capital adequacy ratio	
	December 31, 2018	**December 31, 2017**	**December 31, 2018**	**December 31, 2017**	**December 31, 2018**	**December 31, 2017**
Moscow Exchange	48 490,1	51 247,9	100,0	100,0	-	-
NCC	65 700,9	45 903,5	100,0	300,0	153,2	18,42
NSD	8 927,5	8 945,3	4 000,0	4 000,0	27,94	28,54
NAMEX	179,2	178,6	100,0	100,0	-	-

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

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 on 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 on the following currencies: USD, EUR, CNY, HKD, GBP, CHF, TRY, UAH, KZT and BYR. Deliverable forward contracts for currency pairs are also traded on 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 depository-credit operations, on particular, funds placement auctions on bank deposits.

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

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 on 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 on 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 **"Depository"** includes depository and settlement services provided to participants on 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.

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 on products and services of different segments.

The information on income and expenses of the Group broken down into operating segments for the years ended December, 2018 and 2017, is provided below.

Year ended December 31, 2018	Trading services	Clearing	Depository	Other services	Total
INCOME					
Commission income	9 338,3	8 174,1	4 722,4	1 412,3	23 647,1
Net interest and other finance income*	6 020,7	7 836,4	2 203,9	-	16 061,0
Other operating income	54,3	70,7	19,9	48,4	193,3
Total income	**15 413,3**	**16 081,2**	**6 946,2**	**1 460,7**	**39 901,4**
EXPENSES					
Personnel expenses	(3 115,1)	(993,8)	(1 937,0)	(466,4)	(6 512,3)
General and administrative expenses,	(4 208,2)	(910,6)	(2 265,5)	(557,1)	(7 941,4)
Incl. depreciation and amortisation	*(1 722,3)*	*(401,3)*	*(1 102,0)*	*(113,9)*	*(3 339,5)*
Total expenses before other operating expenses	**(7 323,3)**	**(1 904,4)**	**(4 202,5)**	**(1 023,5)**	**(14 453,7)**
Total profit before other operating expenses and tax	**8 090,0**	**14 176,8**	**2 743,7**	**437,2**	**25 447,7**
Other operating expenses	-	(1 075,2)	-	-	(1 075,2)
Total profit before tax	**8 090,0**	**13 101,6**	**2 743,7**	**437,2**	**24 372,5**

* Including net gain on financial assets at FVTOCI and net financial result from foreign exchange._

Year ended December 31, 2017	Trading services	Clearing	Depository	Other services	Total
INCOME					
Commission income	8 705,0	6 881,6	4 278,2	1 342,8	21 207,6
Net interest and other finance 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	(2 859,6)	(966,7)	(1 883,2)	(443,4)	(6 152,9)
General and administrative expenses,	(3 826,3)	(874,7)	(2 168,5)	(409,4)	(7 278,9)
Incl. depreciation and amortisation	*(1 532,1)*	*(352,6)*	*(959,1)*	*(108,7)*	*(2 952,5)*
Total expenses	**(6 685,9)**	**(1 841,4)**	**(4 051,7)**	**(852,8)**	**(13 431,8)**
Total profit before tax	**8 046,8**	**14 185,1**	**2 339,2**	**536,0**	**25 107,1**

** Including net gain on investments available-for sale and net financial result from foreign exchange.

Risk Management Policies

Risk management is an integral part of the Group's activities. Moscow Exchange Group distinguishes the following significant risks: credit, liquidity, market, 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.

There have been no changes on the risk management department since year-end or on any risk management policies, except those related to changes due to adoption of IFRS 9.

A description of the Group's risk management policies on relation to each significant risk is as follows.

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 on credit risk management:

- implement a systemic and enhanced approach to optimize the structure of the assets on 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.

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 on 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 on 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 on compliance with the highest international standards and consisting of various lines of defence applicable on case of a clearing participant default.

As explained on Note 2, the Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase on credit risk since initial recognition. If there has been a significant increase on credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

The Group uses forward-looking information that is available without undue cost or effort on its assessment of significant increase of credit risk as well as on its measurement of ECL. The Group employs experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The base case scenario is the single most-likely outcome and consists of information used by the Group for strategic planning and budgeting. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The table below summarizes the principal macroeconomic indicators included on the economic scenarios used at December 31, 2018 for the years 2019-2021, for Russia which is the country where the Group operates and therefore is the country that has a material impact on ECLs.

	2019	2020	2021
GDP growth	2,1%	2,0%	3,1%
Consumer price index	4,0%	3,8%	4,0%
Average nominal wage growth	4,1%	3,9%	4,1%
Money supply growth	9,0%	8,6%	9,0%
USD/RUB rate	64,70	63,84	63,98

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 5 years.

The Group has performed a sensitivity analysis on how ECL on the main portfolios will change if the key assumptions used to calculate ECL change by a certain percentage. The table below outlines the total ECL per portfolio as at December 31, 2018 if the assumptions used to measure ECL remain as expected (amount as presented on the statement of financial position), as well as if each of the key assumptions used change by plus or minus a certain percentage. The changes are applied on isolation for illustrative purposes, on order to develop the estimate of expected credit losses. In reality there will be interdependencies between the various economic inputs and the exposure to sensitivity will vary across the economic scenarios.

	As expected	Average PD	ECL Cum
	-3,0%	1,35%	348,9
GDP	-	1,23%	317,5
	+3,0%	1,11%	286,1
	-3,0%	1,30%	335,1
Consumer price index	-	1,23%	317,5
	+3,0%	1,16%	299,9
	-3,0%	1,27%	327,7
Average nominal wage	-	1,23%	317,5
	+3,0%	1,19%	307,3
	-5,0%	1,17%	303,1
Money supply	-	1,23%	317,5
	+5,0%	1,29%	331,9
	-15,0%	1,17%	302,8
USD/RUB rate	-	1,23%	317,5
	+15,0%	1,29%	332,2

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

MAXIMUM CREDIT RISK EXPOSURE

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

As at December 31, 2018 included into other assets are overdue receivables of RUB 62,7 mln (December 31, 2017: RUB 23,3 mln).

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

The following table details the credit ratings of the financial assets held by the Group as at December 31, 201 8 and 2017. Table below does not include equity instruments.

	AA	A	BBB	less BBB-	Not rated	Total
December 31, 2018						
Cash and cash equivalents	118 130,3	151 869,9	32 500,4	111 864,6	2 025,0	**416 390,2**
Financial assets at FVTPL	1 018,5	-	3 188,5	0,2	10,7	**4 217,9**
Due from financial institutions	8 294,6	-	9 067,2	73 750,5	-	**91 112,3**
CCP financial assets	-	5 317,9	32 709,7	2 721 694,3	552 298,3	**3 312 020,2**
Financial assets at FVTOCI	-	465,6	15 160,9	185 458,2	9 667,7	**210 752,4**
Other financial assets	22,4	1,9	47,9	417,5	517,2	**1 006,9**
December 31, 2017						
Cash and cash equivalents	40 858,3	31 655,8	86 358,8	114 232,4	138,4	**273 243,7**
Financial assets at FVTPL	404,3	-	-	-	9,3	**413,6**
Due from financial institutions	793,0	-	1 201,4	58 297,5	-	**60 291,9**
CCP 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**

GEOGRAPHICAL CONCENTRATION

The analysis of the geographical concentration of the financial assets and liabilities of the Group as at December 31, 2018 and 2017, is presented below:

				December 31, 2018
	Russia	**OECD**	**Other**	**Total**
FINANCIAL ASSETS				
Cash and cash equivalents	81 593,1	334 364,1	438,7	416 395,9
Financial assets at FVTPL	370,9	3 733,4	246,6	4 350,9
Due from financial institutions	82 810,7	8 294,6	7,0	91 112,3
CCP financial assets	3 312 012,7	-	7,5	3 312 020,2
Financial assets at FVTOCI	185 652,8	21 506,8	3 592,8	210 752,4
Other financial assets	869,3	105,8	31,8	1 006,9
Total financial assets	**3 663 309,5**	**368 004,7**	**4 324,4**	**4 035 638,6**
FINANCIAL LIABILITIES				
Balances of market participants	596 907,1	1 364,2	1 930,1	600 201,4
Overnight bank loans	5 003,1	-	-	5 003,1
CCP financial liabilities	3 312 012,7	-	7,5	3 312 020,2
Distributions payable to holders of securities	8 311,3	16 277,9	86,8	24 676,0
Margin account	-	979,6	-	979,6
Other financial liabilities	2 703,4	241,1	11,7	2 956,2
Total financial liabilities	**3 924 937,6**	**18 862,8**	**2 036,1**	**3 945 836,5**
				December 31, 2017
	Russia	**OECD**	**Other**	**Total**
FINANCIAL ASSETS				
Cash and cash equivalents	85 068,8	187 920,8	259,0	273 248,6
Financial assets at FVTPL	9,3	404,3	-	413,6
Due from financial institutions	49 631,4	10 638,6	21,9	60 291,9
CCP financial assets	2 430 083,8	-	-	2 430 083,8
Investments avaliable-for-sale	171 594,6	43 533,6	4,0	215 132,2
Other financial assets	582,8	84,9	67,2	734,9
Total financial assets	**2 736 970,7**	**242 582,2**	**352,1**	**2 979 905,0**
FINANCIAL LIABILITIES				
Balances of market participants	458 416,6	1 315,5	1 274,1	461 006,2
CCP financial liabilities	2 430 083,8	-	-	2 430 083,8
Distributions payable to holders of securities	2 453,0	54,8	-	2 507,8
Margin account	-	384,6	-	384,6
Other financial liabilities	2 679,5	122,0	6,8	2 808,3
Total financial liabilities	**2 893 632,9**	**1 876,9**	**1 280,9**	**2 896 790,7**

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

- Cash and cash equivalents on the amount of RUB 64 599,5 mln (December 31, 2017: RUB 95 848,5 mln);
- Financial assets at fair value through profit or loss on the amount of RUB 3 188,5 mln (December 31, 2017: none);
- Financial assets at fair value through other comprehensive income on the amount of RUB 21 506,8 mln (December 31, 2017: investments available-for-sale on the amount of RUB 43 529,2 mln);
- Balances of market participants on the amount of RUB 502,8 mln (December 31, 2017: RUB 500,7 mln);
- Distributions payable to holders of securities on the amount of RUB 14 674,4 mln (December 31, 2017: RUB 49,6 mln).

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 on cases of unforeseen emergencies without suffering unacceptable losses or risk of damaging its business reputation.

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 on 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 on 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 on assessing the liquidity of the Group and its exposure to changes on 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.

	Up to 1 month	1 to 3 months	3 months to 1 year	More than 1 year	Maturity undefined	Total
December 31, 2018						
FINANCIAL ASSETS						
Cash and cash equivalents	416 395,9	-	-	-	-	**416 395,9**
Financial assets at FVTPL	548,9	484,6	-	3 188,5	128,9	**4 350,9**
Due from financial institutions	16 498,3	28 308,3	38 011,1	-	8 294,6	**91 112,3**
CCP financial assets	3 215 967,8	96 052,4	-	-	-	**3 312 020,2**
Financial assets at FVTOCI	198 633,7	-	1 084,5	11 034,2	-	**210 752,4**
Other financial assets	705,1	233,1	6,0	-	62,7	**1 006,9**
Total financial assets	**3 848 749,6**	**125 078,4**	**39 101,6**	**14 222,7**	**8 486,2**	**4 035 638,6**
FINANCIAL LIABILITIES						
Balances of market participants	591 906,8	-	-	-	8 294,6	**600 201,4**
Overnight bank loans	5 003,1	-	-	-	-	**5 003,1**
CCP financial liabilities	3 215 967,8	96 052,4	-	-	-	**3 312 020,2**
Distributions payable to holders of securities	24 676,0	-	-	-	-	**24 676,0**
Margin account	-	979,6	-	-	-	**979,6**
Other financial liabilities	445,8	354,8	1 964,4	191,2	-	**2 956,2**
Total financial liabilities	**3 837 999,5**	**97 386,8**	**1 964,4**	**191,2**	**8 294,6**	**3 945 836,5**
Liquidity gap	**10 750,1**	**27 691,6**	**37 137,2**	**14 031,5**	**191,6**	
Cumulative liquidity gap	**10 750,1**	**38 441,8**	**75 579,0**	**89 610,4**	**89 802,0**	
December 31, 2017						
FINANCIAL ASSETS						
Cash and cash equivalents	273 248,6	-	-	-	-	**273 248,6**
Financial assets at FVTPL	413,6	-	-	-	-	**413,6**
Due from financial institutions	7 203,7	31 083,5	15 860,6	-	6 144,1	**60 291,9**
CCP 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	4 743,3	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**	**4 743,3**	**6 270,3**	**2 979 905,0**
FINANCIAL LIABILITIES						
Balances of market participants	454 862,1	-	-	-	6 144,1	**461 006,2**
CCP 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**	**3 557,0**	**126,2**	
Cumulative liquidity gap	**12 008,8**	**50 163,2**	**79 431,1**	**82 988,1**	**83 114,3**	

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

The Group presents securities included on CBR Lombard list as matured on one month.

MARKET RISK

Market risk is the risk of losses due to changes on 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 on interest income or the financial instruments price due to the interest rate changes.

The Group's result is exposed to the effects of fluctuations on 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 on 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 on interest rates.

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

	Year ended December 31, 2018		Year ended December 31, 2017	
	Net profit	**Equity**	**Net profit**	**Equity**
150 bp parallel rise	(82,4)	(6 772,8)	-	(8 004,8)
150 bp parallel fall	85,3	6 712,3	-	7 815,7

CURRENCY RISK

Currency risk is the risk of changes on 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 on 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 on accordance with current market environment.

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

	RUB	USD	EUR	Other currencies	December 31, 2018, Total
FINANCIAL ASSETS					
Cash and cash equivalents	38 381,1	121 623,3	245 899,9	10 491,6	**416 395,9**
Financial assets at FVTPL	117,8	3 188,5	11,1	4,1	**3 321,5**
Due from financial institutions	35 314,1	55 791,2	-	7,0	**91 112,3**
CCP financial assets	2 620 844,8	601 664,9	89 510,5	-	**3 312 020,2**
Financial assets at FVTOCI	112 637,3	64 427,9	33 687,2	-	**210 752,4**
Other financial assets	927,7	66,7	6,5	6,0	**1 006,9**
Total financial assets	**2 808 222,8**	**846 762,5**	**369 115,2**	**10 508,7**	**4 034 609,2**
FINANCIAL LIABILITIES					
Balances of market participants	81 691,9	193 004,7	315 073,0	10 431,8	**600 201,4**
Overnight bank loans	5 003,1	-	-	-	**5 003,1**
CCP financial liabilities	2 620 844,8	601 664,9	89 510,5	-	**3 312 020,2**
Distributions payable to holders of securities	8 309,4	16 303,8	61,2	1,6	**24 676,0**
Margin account	-	979,6	-	-	**979,6**
Other financial liabilities	2 651,5	54,3	110,9	35,3	**2 852,0**
Total financial liabilities	**2 718 500,7**	**812 007,3**	**404 755,6**	**10 468,7**	**3 945 732,3**
Derivatives	**525,1**	**(35 364,3)**	**35 764,4**	**0,1**	**925,2**
Open position	**90 247,2**	**(609,1)**	**124,0**	**40,1**	

	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**
CCP 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**
CCP 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**	

The following exchange rates are applied during the period:

	December 31, 2018		December 31, 2017	
	USD	EUR	USD	EUR
Minimum	55,6717	67,8841	55,8453	59,6124
Maximum	69,9744	81,3942	60,7503	71,9527
Average	62,9264	74,1330	58,3077	66,0215
Year-end	69,4706	79,4605	57,6002	68,8668

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

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

The impact of these movements on post-tax profit for the years ended December 31, 2018 and 2017, and equity as at December 31, 2018 and 2017, is set out on the table below:

	December 31, 2018		December 31, 2017	
	USD	EUR	USD	EUR
	15%	20%	6%	16%
Ruble appreciation	73,1	(19,8)	32,4	(169,6)
Ruble depreciation	(73,1)	19,8	(32,4)	169,6

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.

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 on the performance of their official duties. Losses attributed to legal risk are recorded on 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 on 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 on 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 on 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 on general. In order to avoid such losses the Group constantly monitor its appearance on 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.

Offsetting of Financial Instruments

Gross claims and liabilities with individual counterparties under CCP currency transactions are offset on 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 on the form of cash or securities for current deals and make contribution to a risk-covering fund, as described on Note 35. Clearing rules give the Group right to use these amounts under certain conditions (e.g. on 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. on case of default), but offsetting criteria is not met as there is no enforceable right to set off on the normal course of business.

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

	Gross claims	Gross liabilities	Net amount presented on financial statements	Related amounts not set off on the statement of the financial position: Financial instruments	Cash collateral received	Net amount
December 31, 2018						
Due from financial institutions						
(reverse repo receivables from financial institutions)	48 382,7	-	48 382,7	(48 382,7)	-	-
CCP financial assets (repo transactions)	3 310 008,3	-	3 310 008,3	(3 310 008,3)	-	-
CCP financial assets (currency transactions)	2 806,2	(794,3)	2 011,9	-	(2 011,9)	-
CCP financial liabilities (repo transactions)	-	(3 310 008,3)	(3 310 008,3)	3 310 008,3	-	-
CCP financial liabilities (currency transactions)	794,3	(2 806,2)	(2 011,9)	2 011,9	-	-
Margin account under reverse repo	-	(979,6)	(979,6)	-	-	(979,6)
December 31, 2017						
Due from financial institutions						
(reverse repo receivables from financial institutions)	46 935,2	-	46 935,2	(46 935,2)	-	-
CCP financial assets (repo transactions)	2 428 117,0	-	2 428 117,0	(2 428 117,0)	-	-
CCP financial assets (currency transactions)	3 234,3	(1 267,5)	1 966,8	-	(1 966,8)	-
CCP financial liabilities (repo transactions)	-	(2 428 117,0)	(2 428 117,0)	2 428 117,0	-	-
CCP 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)

Events after the Reporting Date

As at July 20, 2019 the new capital adequacy requirements for stock exchanges come into force on accordance with 4824-U “About the scale and methodology of stock exchange’s capital adequacy ratio calculation”. The ratio is to be calculated as the relation of difference of own funds, stock exchange’s investments and its off-balance sheet liabilities to the quarterly amount of operational expenses, and its minimal required value is 100%. According to the preliminary assessment the Group is on compliance with the new capital adequacy requirements.

In January 2019 the Group acquired 3,37% share on Kazakhstan Stock Exchange JSC (KASE). As at October 10, 2018 the Group and KASE signed a strategic partnership agreement. Under the agreement, the Group is to acquire up to 20% share capital of KASE. The main aims of the partnership between the exchanges are: facilitation of mutual access to both countries markets for professional market participants and investors, delivering the Group’s trading and clearing IT solutions to enhance infrastructure reliability and improve efficiency of KASE’s markets and establishing the CCP, support KASE to hold an IPO.

In the first quarter of 2019 events occurred to the Group’s subsidiary operating as a Commodity Delivery Operator impeding the inspection of commodities stored on some certified grain warehouses. The risks of a possible damage or shortfall of commodities are fully insured.

In the first quarter 2019 the Group’s management promptly detected several incorrectly processed administrative payments not connected with the Group’s trading and clearing activities. Management immediately introduced a set of necessary measures to resolve the situation and improved control procedures to avoid similar mistakes on the future. Management estimates that the final impact on the Group’s 2019 financial results will be immaterial.