

ROSBANK Group

**Interim condensed consolidated
financial statements**

*6 months ended 30 June 2018
(unaudited)*

ROSBANK GROUP

TABLE OF CONTENTS

	Page
REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION.....	3
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)	
Interim condensed consolidated statement of financial position	5
Interim condensed consolidated statement of profit or loss	6
Interim condensed consolidated statement of comprehensive income	7
Interim condensed consolidated statement of changes in equity.....	8
Interim condensed consolidated statement of cash flows.....	9
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	
1. Organization	10
2. Going concern	11
3. Basis of presentation.....	11
4. Significant accounting policies	13
5. Application of new and revised International Financial Reporting Standards (IFRS)	14
6. Change of prior period balances	18
7. Cash and cash equivalents	18
8. Financial assets at fair value through profit or loss.....	19
9. Derivative financial instruments	19
10. Due from banks	20
11. Loans to customers	20
12. Investments at fair value through other comprehensive income (previously classified as Investments available-for-sale)	21
13. Investments at amortised cost (previously classified as Investments held to maturity).....	21
14. Financial liabilities at fair value through profit or loss.....	22
15. Due to banks and international financial institutions	22
16. Customer accounts	23
17. Debt securities issued	23
18. Subordinated debt	24
19. Share capital	24
20. Perpetual subordinated debt	24
21. Net interest income	25
22. Credit loss expense and other provisions	26
23. Net gain/(loss) on financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards	29
24. Net gain/(loss) on foreign exchange operations	30
25. Fee and commission income and expense	30
26. Operating expenses	31
27. Income tax.....	31
28. Earnings per share attributable to equity holders of the parent	32
29. Commitments and contingencies	32
30. Transactions with related parties	36
31. Fair value of financial instruments.....	38
32. Segment reporting.....	41
33. Subsequent events.....	43

Report on Review of Interim Financial Information

To the Shareholders and the Board of Directors of
Public joint stock company ROSBANK

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Public joint stock company ROSBANK and its subsidiaries, which comprise the interim condensed consolidated statement of financial position as at 30 June 2018, the related interim condensed consolidated statement of profit or loss and interim condensed consolidated statement of comprehensive income for the three-month and six-month periods then ended, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six-month period then ended, and notes to the interim condensed consolidated financial statements (interim financial information). Management is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Совершенство бизнеса,
улучшаем мир

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

A.V. Sorokin
Partner
Ernst & Young LLC

16 August 2018

Details of the entity

Name: Public joint stock company ROSBANK
Record made in the State Register of Legal Entities on 25 October 2002, State Registration Number 1027739460737.
Address: Russia 107078, Moscow, Mashì Poryvaevoy st., 34.


Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

ROSBANK GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 30 JUNE 2018 (UNAUDITED) (in millions of Russian Roubles)

	Notes	30 June 2018 (unaudited)	31 December 2017
ASSETS			
Cash and cash equivalents	6, 7, 30	121,278	209,810
Mandatory cash balances with the Central Bank of the Russian Federation	6	6,671	6,113
Financial assets at fair value through profit or loss	8, 9, 30	38,597	34,570
Due from banks	6, 10, 30	12,146	11,767
Loans to customers	11	679,196	654,875
Investments at fair value through other comprehensive income	12, 30	21,910	–
Investments at amortised cost	13	90,110	–
Investments available-for-sale	12, 30	–	15,160
Investments held to maturity	13	–	73,479
Property and equipment		18,139	18,157
Intangible assets		3,346	2,569
Current income tax assets		550	198
Deferred income tax assets		2,131	2,859
Other assets	30	14,981	11,358
Total assets		1,009,055	1,040,915
LIABILITIES AND EQUITY			
LIABILITIES			
Financial liabilities at fair value through profit or loss	9, 14, 30	34,531	33,762
Due to the Central Bank of the Russian Federation		85	207
Due to banks and international financial institutions	15, 30	42,742	32,089
Customer accounts	16, 30	612,804	648,024
Debt securities issued	17, 30	129,743	146,304
Other provisions	22	841	1,124
Current income tax liabilities		136	580
Deferred income tax liabilities		1,507	1,522
Other liabilities	30	12,796	10,309
Subordinated debt	18, 30	28,286	34,397
Total liabilities		863,471	908,318
EQUITY			
Share capital	19	17,587	17,587
Share premium		59,707	59,707
Perpetual subordinated debt	20, 30	9,494	–
Cumulative translation reserve		371	429
Property and equipment revaluation reserve		4,600	4,941
Fair value reserve		8	(1,073)
Cash flow and NIFE hedge		7	31
Retained earnings		53,810	50,975
Total equity		145,584	132,597
TOTAL LIABILITIES AND EQUITY		1,009,055	1,040,915


Chairman of the Management Board
I.A. Polyakov

16 August 2018
Moscow




Member of the Management Board –
Chief Financial Officer
A.A. Ovchinnikov

The notes on pages 10-43 form an integral part of these interim condensed consolidated financial statements.

ROSBANK GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

(in millions of Russian Roubles, except for earnings per share which are in Roubles)

	Notes	6 months ended 30 June (unaudited)		3 months ended 30 June (unaudited)	
		2018	2017	2018	2017
Interest income at effective interest rate	21	41,637	39,862	20,659	19,961
Other interest income	21	160	295	94	204
Interest expense	21, 30	(21,867)	(21,773)	(10,529)	(11,019)
Net interest income before credit loss expense/provision for impairment losses		19,930	18,384	10,224	9,146
Credit loss expense/provision for impairment losses	22, 30	(1,626)	(2,006)	(584)	(1,156)
Net interest income		18,304	16,378	9,640	7,990
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards	23, 30	(513)	(869)	(256)	(494)
Net gain/(loss) on foreign exchange operations	24	1,511	2,132	847	1,501
Net gain/(loss) on precious metals operations		(6)	14	(7)	(24)
Net realized gain on sale of Investments at fair value through other comprehensive income		71	–	71	–
Fee and commission income	25, 30	6,992	5,683	3,696	3,044
Fee and commission expense	25, 30	(1,719)	(1,484)	(869)	(771)
Other provisions	22	(83)	172	–	509
Dividend income		363	328	363	328
Other income		360	503	149	220
Net non-interest income		6,976	6,479	3,994	4,313
Operating income		25,280	22,857	13,634	12,303
Operating expenses	26	(18,045)	(17,359)	(8,746)	(8,701)
Other non-operating income/(expense)		(75)	(83)	(40)	(56)
Profit/(loss) before income tax		7,160	5,415	4,848	3,546
Income tax credit/(expense)	27	(1,799)	(1,555)	(945)	(1,037)
Net profit/(loss) for the period		5,361	3,860	3,903	2,509
EARNINGS PER SHARE					
Basic and diluted (in RUB)	28	3.46	2.49	2.52	1.62


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ROSBANK GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

(in millions of Russian Rubles)

	Notes	6 months ended		3 months ended	
		30 June (unaudited) 2018	2017	30 June (unaudited) 2018	2017
Net profit/(loss) for the period		5,361	3,860	3,903	2,509
Other comprehensive income/ (expense)					
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translating foreign operations		(51)	118	52	225
Income tax on translating foreign operations		(7)	(24)	(11)	(45)
Cash flow and NIFE hedge		(24)	44	(13)	(143)
Income tax on cash flow and NIFE hedge		–	(6)	(3)	31
Changes in allowance for expected credit losses of investments at fair value through other comprehensive income		–	–	(1)	–
Net change in fair value of investments at fair value through other comprehensive income		(79)	–	(76)	–
Income tax on fair value of investments at fair value through other comprehensive income during the period		16	–	16	–
Net profit/(loss) resulting on reevaluation of available-for-sale financial assets during period		–	23	–	28
Amounts recycled to profit and loss relating to available-for-sale financial assets		–	122	–	62
Income tax on available-for-sale financial assets during the period		–	(29)	–	(18)
Other comprehensive income/ (expense) after income tax		(145)	248	(36)	140
Total comprehensive income/ (expense)		5,216	4,108	3,867	2,649


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ROSBANK GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED) (in millions of Russian Roubles)

	Share capital	Share premium	Perpetual subordinated debt	Cumulative translation reserve	Property and equipment revaluation reserve	Fair value reserve	Cash flow and NIFE hedge	Retained earnings	Total equity
31 December 2016	17,587	59,707	–	1,684	5,952	(1,309)	(156)	40,093	123,558
Net profit/(loss) for the period	–	–	–	–	–	–	–	3,860	3,860
Other comprehensive income/(expense) for the period	–	–	–	94	–	116	38	–	248
Total comprehensive income/(expense) for the period	–	–	–	94	–	116	38	3,860	4,108
Property and equipment disposal (net of deferred tax of RUB 53 millions)	–	–	–	–	(213)	–	–	213	–
30 June 2017 (unaudited)	17,587	59,707	–	1,778	5,739	(1,193)	(118)	44,166	127,666
31 December 2017	17,587	59,707	–	429	4,941	(1,073)	31	50,975	132,597
Impact of adopting IFRS 9 (Note 5)	–	–	–	–	–	1,144	–	(2,867)	(1,723)
Restated opening balance under IFRS 9	17,587	59,707	–	429	4,941	71	31	48,108	130,874
Perpetual subordinated debt	–	–	9,494	–	–	–	–	–	9,494
Net profit/(loss) for the period	–	–	–	–	–	–	–	5,361	5,361
Other comprehensive income/(expense) for the period	–	–	–	(58)	–	(63)	(24)	–	(145)
Total comprehensive income/(expense) for the period	–	–	–	(58)	–	(63)	(24)	5,361	5,216
Property and equipment disposal (net of deferred tax of RUB 85 millions)	–	–	–	–	(341)	–	–	341	–
30 June 2018 (unaudited)	17,587	59,707	9,494	371	4,600	8	7	53,810	145,584

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16 August 2018
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ROSBANK GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED) (in millions of Russian Roubles)

	Notes	2018	6 months ended 30 June (unaudited) 2017
Cash flows from operating activities			
Interest received		42,450	39,159
Interest paid		(21,741)	(21,765)
Fees and commissions received		6,967	5,658
Fees and commissions paid		(1,704)	(1,469)
Receipts from/(payment for) financial assets at fair value through profit or loss		(1,001)	(532)
Receipts from/(payment for) trading in foreign currencies		(1,462)	1,675
Other operating income received		282	459
Receipts from/(payment for) precious metals operations		18	69
Administrative and other operating expenses paid		(16,732)	(16,125)
Income tax received/(paid)		(1,442)	(2,051)
Cash flows from operating activities before changes in operating assets and liabilities		5,635	5,079
Changes in operating assets and liabilities			
Net (increase)/decrease in mandatory cash balances with the Central Bank of the Russian Federation		(558)	(1,174)
Net (increase)/decrease in financial assets at fair value through profit or loss		(2,497)	(1,786)
Net (increase)/decrease in due from banks		1,708	3,815
Net (increase)/decrease in loans to customers		(21,286)	(11,365)
Net (increase)/decrease in other assets		(3,697)	3,468
Net increase/(decrease) in financial liabilities at fair value through profit or loss		144	1,410
Net increase/(decrease) in due to the Central Bank of the Russian Federation		(122)	42
Net increase/(decrease) in due to banks and international financial institutions		8,802	(11,614)
Net increase/(decrease) in customer accounts		(42,023)	85,672
Net increase/(decrease) in debt securities issued, other than bonds issued		883	433
Net increase/(decrease) in other liabilities		2,261	427
Net increase/(decrease) in other liabilities on law cases		-	(10)
Net cash from / (used in) operating activities		(50,750)	74,397
Cash flows from investing activities			
Purchase of financial assets at fair value through other comprehensive income		(43,141)	-
Proceeds from disposal and redemption of financial assets available-for-sale		-	1,694
Proceeds from disposal and redemption of financial assets at fair value through other comprehensive income		36,106	-
Proceeds from redemption of financial assets at amortised cost		6,403	-
Purchase of financial assets at amortised cost		(17,710)	-
Proceeds from redemption of held to maturity financial assets		-	624
Purchase of held to maturity financial assets		-	-
Purchase of property, equipment and intangible assets		(2,124)	(1,124)
Proceeds from disposal of property and equipment		209	235
Dividend income received		363	328
Net cash from / (used in) investing activities		(19,894)	1,757
Cash flows from financing activities			
Redemption of bonds issued by the Group		(15,777)	(1,450)
Issue of bonds		-	4,000
Proceeds from sale of previously bought back bonds issued		187	953
Buy back of bonds issued		(1,217)	(24,540)
Repayment of subordinated debt		-	(3,550)
Issue of promissory notes		-	9,961
Net cash from / (used in) financing activities		(16,807)	(14,626)
Effect of exchange rate changes on the balance of cash held in foreign currencies		(1,080)	(2,405)
Net increase/(decrease) in cash and cash equivalents		(88,531)	59,123
CASH AND CASH EQUIVALENTS, beginning of the period	7	209,810	112,992
CASH AND CASH EQUIVALENTS, end of the period	7	121,279	172,115


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16 August 2018
Moscow

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Member of the Management Board –
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ROSBANK GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

1. Organization

ROSBANK (initially named “Nezavisimost”) is a joint stock bank which was incorporated in the Russian Federation in 1993. Over the subsequent five years, ROSBANK customers were mainly comprised of medium-sized trade, finance and technology companies, for which it conducted a variety of activities, including corporate lending, settlement, government bond trading, foreign exchange and money market transactions. In 1998 ROSBANK was acquired by the Interros Group with the initial purpose of providing banking services to Interros Group companies. In 2000 ROSBANK acquired Uneximbank which was merged into ROSBANK and ceased to exist as a legal entity. In 2002 the businesses of ROSBANK and Commercial Bank “MFK Bank”, specializing in investment banking, were consolidated. In 2003 the Interros Group acquired OVK group – one of Russia’s largest retail banking institutions. The integration of OVK with ROSBANK has transformed ROSBANK into a financial institution capable of offering universal services.

Societe Generale became the owner of 20% minus 1 share of Rosbank in 2006. In February 2008 Societe Generale became the owner of Rosbank controlling stock interest by exercising the option for acquisition of 30% stocks. In March 2008 Societe Generale offered to buy the stakes of minority shareholders at 194.09 roubles per share. Having performed the buy-out Societe Generale raised its interest in Rosbank to 57.57%. On 23 March 2009 ROSBANK issued 26,665,928 shares by way of public subscription. The issue was bought by Societe Generale and PHARANCO HOLDINGS CO. LIMITED in the proportion 60.6786% and 39.3214%, respectively. On 27 May 2009 Societe Generale increased its share in Rosbank by 7% after the purchase of this share from PHARANCO HOLDINGS CO. LIMITED.

In February 2010, Societe Generale with the consent of other shareholders of Rosbank Group took the decision to reorganize the legal structure of its Russian subsidiaries in order to build a major financial group.

The first step was achieved in January 2011 with the acquisition of 100% of the share capital of Rusfinance and Delta Credit. The two companies kept acting as separate entities, Rusfinance being mainly dedicated to consumer credit and Delta Credit to mortgages.

The second step was achieved in July 2011 with the merger of the two universal banks ROSBANK and BSGV into a single and unified company ultimately operating under a single brand. Benefiting from their differentiated positioning on both corporate and retail segments, the new structure aims at improving its financial performance by increasing revenues through cross-selling strategy and developing synergies in order to reduce operational costs.

During 2013, Societe Generale further consolidated its positions in Russian market by acquiring in December 2013 an additional 10% stake in ROSBANK equity from VTB Group, increasing it up to 92.4%. As part of the agreement ROSBANK sold to VTB Group certain Russian assets: shares listed on Moscow Exchange as well as some loans and real-estate assets.

In April 2015 Societe Generale acquired further 7% of ROSBANK’s share capital from Interros group, raising its stake to 99.4%, in line with its strategy of building up the Group’s stake in ROSBANK.

ROSBANK is regulated by the Central Bank of the Russian Federation (the “CBR”) and conducts its business under license number 2272. ROSBANK is engaged in a full range of banking activities, including commercial and investment banking and custodial services.

The registered office of ROSBANK is located at 34, Masha Poryvaeva Street, Moscow, 107078, Russian Federation.

As of 30 June 2018 and 31 December 2017 ROSBANK had 8 branches operating in the Russian Federation.

ROSBANK GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

ROSBANK (“the Bank”) is the parent company of a banking group (the “Group”) which consists of the following material enterprises as of 30 June 2018, 31 December 2017 and 30 June 2017:

Name	Country of incorporation	Group’s ownership interest / voting rights, %			Type of operations
		30 June 2018	31 December 2017	30 June 2017	
DeltaCredit Bank JSC	Russia	100/100	100/100	100/100	Banking
Rusfinance Bank LLC	Russia	100/100	100/100	100/100	Banking
Rusfinance LLC	Russia	100/100	100/100	100/100	Commerce
RB Factoring LLC	Russia	100/100	100/100	100/100	Factoring
Rosbank (Switzerland) SA	Switzerland	100/100	100/100	100/100	In liquidation
RB LEASING LLC	Russia	100/100	100/100	100/100	Leasing
ORS JSC	Russia	100/100	100/100	100/100	Processing
RB Specialized Depository LLC	Russia	100/100	100/100	100/100	Depository services
RB Service LLC	Russia	100/100	100/100	100/100	Service company
Telsikom CJSC	Russia	100/100	100/100	100/100	Telecommunication services
SSG Finance	Russia	100/100	100/100	–	Leasing

On 14 July 2010 the Group took decision to close its foreign subsidiary in Switzerland – Rosbank (Switzerland) SA. In May 2017 the licence for banking activities was withdrawn. The liquidation process is authorized n by Swiss banking authorities. The Group does not anticipate any substantial impact on its financial results nor its financial position as a result of the aforementioned liquidation.

In October 2017 the Group acquired 100% shares in SG Finance, a company operating in leasing. The purchase consideration amounted to RUB 168 million, which was settled in cash.

As of 30 June 2018 and 31 December 2017, the controlling shareholder of ROSBANK is Societe Generale S.A. with share more than 99%.

2. Going concern

These interim condensed consolidated financial statements have been prepared on the going concern basis. The Group has no intention or need to reduce substantially its business operations.

The management and shareholders have the intention to further develop the business of the Group in the Russian Federation both in corporate and retail segments. Management believes that the going concern assumption is appropriate for the Group due to its sufficient capital adequacy ratio and based on historical experience that short-term obligations will be refinanced in the normal course of business.

3. Basis of presentation

Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements are unaudited and do not include all the information and disclosures required in the annual financial statements. Additionally, the Group has provided disclosures where significant events have occurred subsequent to the issuance of the Group’s annual consolidated financial statements for 2017 prepared in accordance with IFRS. Management believes that the disclosures in these interim condensed consolidated financial statements are adequate to make the information presented not misleading if these financial statements are read in conjunction with the Group’s annual consolidated financial statements for 2017 prepared in accordance with IFRS. In the opinion of management, these financial statements reflect all adjustments necessary to present fairly the Group’s financial position, results of operations, statements of changes in equity and cash flows for the interim reporting periods.

ROSBANK GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

Since the results of the Group's operations closely relate to and depend on changing market conditions, the results of the Group's operations for the interim period are not necessarily indicative of the results for the full year.

Other basis of presentation criteria

These interim condensed consolidated financial statements have been prepared assuming that the Group is a going concern and will continue operation for the foreseeable future.

These interim condensed consolidated financial statements are presented in millions of Russian Roubles ("mRUB"), unless otherwise indicated.

These interim condensed consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments that are measured at fair values, and certain land and buildings that are measured at revalued amounts according to International Accounting Standard 16 *Property, Plant and Equipment* ("IAS 16"). Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these interim condensed consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Bank and its consolidated companies, registered in the Russian Federation, maintain their accounting records in accordance with Russian Accounting Standards (RAS), foreign consolidated companies of the Group maintain their accounting records in accordance with the law of the countries, in which they operate. These interim condensed consolidated financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

Functional currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the parent of the Group is the Russian rouble (RUB). The presentation currency of the interim condensed consolidated financial statements of the Group is the RUB. All values are rounded to the nearest million RUB, except when otherwise indicated.

ROSBANK GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

Offset of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the interim condensed consolidated statement of financial position only when there is a currently legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expense is not offset in the interim condensed consolidated statement of profit or loss unless required or permitted by any accounting standard or interpretation permitted by any IFRS, and as specifically disclosed in the accounting policies of the Group.

4. Significant accounting policies

The same accounting policies, presentation and methods of computation have been followed in these interim condensed consolidated financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2017, except for the accounting policies and impact of the adoption of the Standards and Interpretations described below.

Rates of exchange and commodity prices

The exchange rates and commodity prices at period-end used by the Group in the preparation of the interim condensed consolidated financial statements are as follows:

	30 June 2018	31 December 2017
RUB/1 US Dollar	63.2910	57.6002
RUB/1 Euro	73.0884	68.6886
RUB/Gold (1 ounce)	79,142.23	74,678.66
RUB/Platinum (1 ounce)	53,860.64	53,395.39
RUB/Palladium (1 ounce)	60,316.32	60,825.81
RUB/Silver (1 ounce)	1,014.55	971.43

Critical accounting judgements and key sources of estimation uncertainty

In preparing these interim condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those that applied to the Group's annual consolidated financial statements for 2017 prepared in accordance with IFRS.

The Group adopted new Standards effective as of 1 January 2018 as described below. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

5. Application of new and revised International Financial Reporting Standards (IFRS)

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The nature and the impact of each amendment is described below:

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods on or after 1 January 2018. The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed below.

(a) Classification and measurement

Under IFRS 9, all debt financial assets that do not meet a "solely payment of principal and interest" (SPPI) criterion, are classified at initial recognition as fair value through profit or loss (FVPL). Under this criterion, debt instruments that do not correspond to a "basic lending arrangement", such as instruments containing embedded conversion options or "non-recourse" loans, are measured at FVPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- Instruments that are managed on a "hold to collect" basis are measured at amortised cost;
- Instruments that are managed on a "hold to collect and for sale" basis are measured at fair value through other comprehensive income (FVOCI);
- Instruments that are managed on other basis, including trading financial assets, will be measured at FVPL.

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realised and unrealised gains and losses, except for dividend income, are recognised in other comprehensive income with no subsequent reclassification to profit and loss.

The classification and measurement of financial liabilities remains largely unchanged from the current IAS 39 requirements. Derivatives will continue to be measured at FVPL. Embedded derivatives are no longer separated from a host financial asset.

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for loan impairment by replacing IAS 39 incurred loss approach with a forward-looking expected credit loss (ECL) approach. From 1 January 2018, the Group has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

ROSBANK GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Group groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: When loans are first recognised, the Group recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired. The bank records an allowance for the LTECL.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

The mechanics of the ECL calculations are outlined below and the key elements are as follows:

- PD The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

When estimating the ECLs, the Group distinguishes homogeneous groups based on business-directions. Each of the scenarios is associated with different PDs, EADs and LGDs. In its ECL models, the Group relies on a broad range of forward looking information as economic inputs. Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The Group considers an exposure to have significantly increased in credit risk in case of any violation of financial covenants and conditions of the credit agreement, since initial recognition. The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset and forms a customer/facility watch list. Regardless of the change in other conditions, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments or financial asset restructuring.

The Group calculates ECLs on an individual basis for the following assets: all stage 3 assets, the corporate lending portfolio, the treasury and interbank relationships (due from banks, REPO, debt investment securities at amortised cost/FVOCI), POCI resulted from restructuring.

ROSBANK GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

The Group calculates ECL for Stage 3 based on a measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The Group calculates ECL on a collective basis for all other classes of assets which it groups into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans and applies to them homogeneous provisioning rates.

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

(c) Effect of transition to IFRS 9

The following tables set out the impact of adopting IFRS 9 on the statement of financial position and retained earnings as at 1 January 2018 including the effect of replacing IAS 39 incurred credit loss calculations with IFRS 9 ECL.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as at 31 December 2017 is as follows:

	IAS 39 measurement Category	IAS 39 measurement Amount	Reclas- sification	Remeasurement ECL	Other	IFRS 9 measurement Amount	IFRS 9 measurement Category
Financial assets							
Cash and cash equivalents	Loans and receivables	209,810	–	(7)	–	209,803	Amortised cost
Mandatory cash balances with the Central Bank of the Russian Federation	Loans and receivables	6,113	–	–	–	6,113	Amortised cost
Financial assets at fair value through profit or loss	FVPL	34,570	191	–	–	34,761	FVPL(mandatory)
Due from banks	Loans and receivables	11,767	–	(4)	–	11,763	Amortised cost
Loans to customers – amortised cost	Loans and receivables	654,875	–	(4,206)	–	650,669	Amortised cost
Investments at fair value through other comprehensive income	AFS	15,160	(191)	–	–	14,969	FVOCI (debt)
Investments at amortised cost	HTM	73,479	–	(56)	1,427	74,850	Amortised cost
Other financial assets	Loans and receivables	1,840	–	(4)	–	1,836	Amortised cost
Non-financial assets							
Deferred income tax assets		30,442	–	–	–	30,442	
		2,859	–	717	(286)	3,290	
Total assets		1,040,915	–	(3,560)	1,141	1,038,496	
Financial liabilities							
Provisions		(1,124)	–	696	–	(428)	
Total liabilities		(1,124)	–	696	–	(428)	

ROSBANK GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

The impact of transition to IFRS 9 on reserves and retained earnings is as follows:

	Reserves and retained earnings
Fair value reserve	
Closing balance under IAS 39 (31 December 2017)	(1,073)
Remeasurement of debt securities previously reclassified from available-for-sale to Investments at amortised cost	1,427
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	3
Deferred tax in relation to the above	(286)
	<hr/>
Restated opening balance under IFRS 9 (1 January 2018)	71
	<hr/> <hr/>
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	50,975
Recognition of IFRS 9 ECLs including those measured at FVOCI	(3,584)
Deferred tax in relation to the above	717
	<hr/>
Restated opening balance under IFRS 9 (1 January 2018)	48,108
	<hr/> <hr/>
Total change in equity due to adopting IFRS 9	(1,723)
	<hr/> <hr/>

The following table reconciles the aggregate opening loan loss allowances under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 *Provisions Contingent Liabilities and Contingent Assets* to the ECL allowances under IFRS 9.

	Loan loss allowance/ provision under IAS 39/IAS 37 at 31 December 2017	Remeasurement	ECL under IFRS 9 at 1 January 2018
Impairment allowance for			
Cash and cash equivalents	–	(7)	(7)
Due from banks	–	(4)	(4)
Loans and receivables at amortised cost	(46,271)	(4,206)	(50,477)
Held to maturity securities per IAS 39 / Investment securities at amortised cost under IFRS 9	–	(56)	(56)
Available-for-sale debt investment securities per IAS 39 / debt financial assets at FVOCI under IFRS 9	–	(3)	(3)
Other assets	(832)	(4)	(836)
Provisions for financial guarantees issued, claims and other commitments	(847)	696	(151)

IFRS 15 Revenue from Contracts with Customers

IFRS 15, issued in May 2014, and amended in April 2016, establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. However, the standard does not apply to revenue associated with financial instruments and leases, and therefore, does not impact the majority of the Group's revenue including interest income, gains/(losses) on operations with securities, lease income which are covered by IFRS 9 *Financial Instruments* and IAS 17 *Leases*. As a result, the majority of the Group's income are not impacted by the adoption of this standard.

The Group adopted the new standard using the modified retrospective method. The application of this retrospective method did not significantly impacted the Group's retained earnings.

ROSBANK GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

6. Change of prior period balances

The Group has changed presentation of Cash and cash equivalents to provide better view of the consolidated financial statements. The presentation of the comparative figures has been adjusted to be consistent with the new presentation.

	As previously reported 31 December 2017 mRUB	Reclassification	As revised 31 December 2017 mRUB
Cash and balances with Central Bank of Russian Federation	136,903	(136,903)	–
Cash and cash equivalents	–	209,810	209,810
Mandatory cash balances with the Central Bank of the Russian Federation	–	6,113	6,113
Due from banks	90,787	(79,020)	11,767

7. Cash and cash equivalents

Cash and cash equivalents for the purposes of the interim condensed consolidated statement of cash flows are comprised of the following:

	30 June 2018 mRUB (unaudited)	31 December 2017 mRUB
Cash	13,060	19,269
Balances with the Central Bank of the Russian Federation	56,624	111,521
Demand deposits in banks	17,735	15,892
Loans under reverse repurchase agreements	33,279	35,776
Due from banks with original maturity within 90 days	581	27,352
Cash and cash equivalents	121,279	209,810
Less – Allowance for impairment	(1)	–
Total cash and cash equivalents	121,278	209,810

Fair value of assets pledged and carrying value of loans under the reverse repurchase agreements as at 30 June 2018 and 31 December 2017 comprise:

	30 June 2018 (unaudited) mRUB		31 December 2017 mRUB	
	Carrying value of loan	Fair value of collateral	Carrying value of loan	Fair value of collateral
Bonds of Russian companies	27,997	32,220	23,779	27,197
Bonds of the Russian Federation	1,931	2,077	2,430	2,771
Bonds of local authorities of Russian Federation	–	–	3,170	3,368
Bonds of the Russian banks	2,501	2,914	4,896	5,495
Shares of Russian banks	850	1,314	–	–
Shares of Russian companies	–	–	1,501	2,547
Total loans under reverse repurchase agreements	33,279	38,525	35,776	41,378

ROSBANK GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

8. Financial assets at fair value through profit or loss

	30 June 2018 mRUB (unaudited)	31 December 2017 mRUB
Debt securities	5,831	3,204
Financial assets at fair value through profit or loss pledged under repurchases agreements	–	32
Derivative financial instruments (Note 9)	32,575	31,334
Shares	191	–
Total financial assets at fair value through profit or loss	38,597	34,570

The debt securities included in financial assets at fair value through profit or loss relate entirely to financial assets held-for-trading.

	30 June 2018 (unaudited)		31 December 2017	
	Nominal interest rate %	Amount mRUB	Nominal interest rate %	Amount mRUB
Debt securities				
Debt securities of Russian banks	9.25-10.4%	507	8.45-10.4%	210
Debt securities of local authorities	7.7%	187	7.6-7.7%	200
Debt securities of the Russian Federation	4.5-8.5%	2,904	6.4-10.61%	1,400
Debt securities of Russian companies	6.95-9.25%	2,233	2.25-8.8%	1,426
		5,831		3,236

9. Derivative financial instruments

Derivative financial instruments comprise:

	30 June 2018 (unaudited) mRUB			31 December 2017 mRUB		
	Nominal value	Fair value assets	Fair value liabilities	Nominal value	Fair value assets	Fair value liabilities
Derivative financial instruments						
Foreign exchange contracts						
Swaps	201,693	3,895	(3,893)	52,645	809	(3,394)
Forwards	124,575	686	(1,290)	42,485	2,377	(515)
IRS/CIRS	361,909	26,667	(26,042)	338,872	27,642	(27,476)
Cash flow and NIFE hedge	3,629	101	(19)	854	32	(1)
Foreign exchange options	41,664	273	(275)	2,012	43	(43)
Total foreign exchange contracts		31,622	(31,519)		30,903	(31,429)
Contracts on precious metals and commodities						
Forwards	20,479	919	(919)	5,893	427	(427)
Swaps	103	–	(9)	92	4	–
Options	6,176	34	(34)	10,887	–	–
Total contracts on precious metals and commodities		953	(962)		431	(427)
Total		32,575	(32,481)		31,334	(31,856)

ROSBANK GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

Embedded derivatives

The Group issued structural bonds with embedded derivatives included in financial assets at fair value through profit and loss in amount RUB 3,823 million as at 30 June 2018 and in amount RUB 3,833 million as at 31 December 2017, respectively. Simultaneously the Group entered into interest rate swap contracts to compensate future cash flows to be paid on structural bonds issued. The fair value of interest rate swaps included in financial liabilities at fair value through profit and loss amounted to RUB 3,976 million as at 30 June 2018 and amounted to RUB 3,998 million as at 31 December 2017, respectively.

10. Due from banks

	30 June 2018 mRUB (unaudited)	31 December 2017 mRUB Revised
Term deposits in banks	12,149	11,767
Less – Allowance for impairment	(3)	–
Total due from banks	12,146	11,767

11. Loans to customers

	30 June 2018 mRUB (unaudited)	31 December 2017 mRUB
Loans to Corporate business		
Loans to legal entities	274,925	273,062
Net investments in finance lease	16,183	14,875
Account receivable from RF Government on financed loans	3,086	4,283
Loans under reverse repurchase agreements	534	847
Loans to Retail business		
Loans to individuals	429,403	408,079
Total loans to customers before impairment	724,131	701,146
Less – allowance for impairment	(44,935)	(46,271)
Total loans to customers	679,196	654,875

As of 30 June 2018 the Group had loans to two groups of customers which individually exceeded 10% of the Group's equity.

As of 31 December 2017 the Group had loans to three groups of customers which individually exceeded 10% of the Group's equity.

As of 30 June 2018 the amount receivable from RF Government on the financed car loan program amounted to RUB 3,086 million (as of 31 December 2017 – to RUB 4,283 million).

ROSBANK GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

Fair value of assets pledged and carrying value of loans under the reverse repurchase agreements as at 30 June 2018 and 31 December 2017 comprise:

	30 June 2018 (unaudited) mRUB		31 December 2017 mRUB	
	Carrying value of loan	Fair value of collateral	Carrying value of loan	Fair value of collateral
Bonds of Russian companies	534	666	847	960
Total loans under reverse repurchase agreements	534	666	847	960

12. Investments at fair value through other comprehensive income (previously classified as Investments available-for-sale)

	30 June 2018 mRUB (unaudited)	31 December 2017 mRUB
Debt securities	21,910	14,969
Equity investments	–	191
Investments at fair value through other comprehensive income (previously classified as Investments available-for-sale)	21,910	15,160

	30 June 2018 (unaudited)		31 December 2017	
	Nominal interest rate %	Amount mRUB	Nominal interest rate %	Amount mRUB
Debt securities				
Bonds of the Russian Federation	6.5%-7.25%	21,910	6.5%-7.75%	14,969
		21,910		14,969

13. Investments at amortised cost (previously classified as Investments held to maturity)

	30 June 2018 (unaudited)		31 December 2017	
	Nominal annual interest rate	Amount mRUB	Nominal annual interest rate	Amount mRUB
Eurobonds of the Russian Federation	3.5-11.0%	42,799	3.5-11.0%	39,005
Bonds of the Russian Federation	7.0-8.15%	46,194	7.0-7.6%	27,597
Eurobonds of Russian companies	3.37-4.95%	1,171	3.37-9.13%	6,877
Less – allowance for impairment		(54)		–
Investments at amortised cost (previously classified as Investments held to maturity)		90,110		73,479

ROSBANK GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

14. Financial liabilities at fair value through profit or loss

	30 June 2018 mRUB (unaudited)	31 December 2017 mRUB
Derivative financial instruments	32,481	31,856
Short position on securities purchased	2,050	1,906
Total financial liabilities at fair value through profit or loss	34,531	33,762

Derivative financial instruments are disclosed in Note 9.

15. Due to banks and international financial institutions

	30 June 2018 mRUB (unaudited)	31 December 2017 mRUB
Time deposits	19,833	12,615
Demand accounts	22,909	18,436
Loans under repurchase agreements	–	1,038
Total due to banks and international financial institutions	42,742	32,089

The Group is obligated to comply with financial covenants in relation to certain balances deposited by banks and international financial institutions deposits. These covenants include various financial performance ratios. As of 30 June 2018 and 31 December 2017 the Group has not breached any of these covenants.

As at 30 June 2018 and 31 December 2017 included in due to banks and international financial institutions are RUB 18,414 million and RUB 13,609 million (13% and 10% of Group equity), respectively, that were due to three and three banks, respectively, which represents a significant concentration.

Fair value of assets pledged and carrying value of loans under repurchase agreements as at 31 December 2017 comprise:

	Carrying value of loans mRUB	31 December 2017 Fair value of collateral mRUB
Bonds of the Russian Federation purchased by reverse repurchases agreements	1,005	1,006
Bonds of the Russian Federation	33	32
Total	1,038	1,038

ROSBANK GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

16. Customer accounts

	30 June 2018 mRUB (unaudited)	31 December 2017 mRUB
Corporate		
Time deposits	186,436	256,197
Repayable on demand	153,839	139,744
Total corporate	340,275	395,941
Individuals		
Time deposits	146,563	148,906
Repayable on demand	125,966	103,177
Total individuals	272,529	252,083
Total customer accounts	612,804	648,024

Customer accounts which were held as security against letters of credit and guarantees issued and other transaction related contingent obligations of the Group are presented in Note 29.

17. Debt securities issued

	Annual coupon rates %	30 June 2018 mRUB (unaudited)	Annual coupon rates %	31 December 2017 mRUB
Bonds of DeltaCredit Bank due in 2018-2026	5.00%-12.50%	67,274	8.00%-12.50%	72,627
Bonds of Rosbank due in 2020-2026	7.50%-10.40%	30,868	7.50%-10.40%	31,165
Bonds of Rusfinance Bank due in 2018-2026	8.05%-10.00%	9,155	8.75%-13.90%	20,549
Exchange structural bonds of Rosbank due in 2024	8.38%-9.89%	10,000	9.89%-11.52%	10,000
Discount bearing promissory notes	0.00%-8.55%	12,446	0.00%-8.55%	11,963
Total debt securities issued		129,743		146,304

Changes in the balances for the 6 months ended 30 June 2018 were also due to a partial buyback of the bonds and operations with the bonds issued by its subsidiaries.

During the period January-June 2018 the following bonds were redeemed:

Issuer	Issue date	Maturity date	Debt volume, mRUB	Annual coupon rate, %
DeltaCredit Bank	04.02.2015	04.02.2018	4,996	8.5%
Rusfinance Bank	29.09.2015	29.03.2018	200	8.8%
Rusfinance Bank	24.11.2015	24.05.2018	2,844	10.1%
Rusfinance Bank	24.04.2013	24.04.2018	143	8.9%
Rusfinance Bank	10.06.2014	13.06.2018	3,593	10.1%
Rusfinance Bank	08.10.2014	04.04.2018	4,000	11.0%

ROSBANK GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

18. Subordinated debt

	Currency	Interest rate %	30 June 2018 mRUB (unaudited)	Interest rate, %	31 December 2017 mRUB
Societe Generale S.A. due in 2020-2023	USD	6.5-9.6%	28,286	6.5-9.3%	34,397
Total subordinated debt			28,286		34,397

In March 2018 the terms of subordinated loan attracted by the Group from Societe General S.A. in June 2008 in the amount of USD 150 million and annual interest rate of 9.34% and mature in June 2020 were modified (Note 20).

In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

19. Share capital

As of 30 June 2018 and 31 December 2017 the nominal share capital totaling RUB 17,587 million issued and fully paid comprised 1,551,401,853 ordinary shares with par value of RUB 10 each. All shares are ranked equally and carry one vote. The hyperinflation effect has been recorded in the amount of RUB 2,073 million.

As of 30 June 2018 and 31 December 2017 share premium totaling RUB 59,707 million represents an excess of contributions received in share capital over the nominal value of shares issued.

As at 30 June 2018 and 31 December 2017 the Group's share capital comprised the following number of shares of RUB 10 each:

	Share capital authorized	Share capital authorized but not issued	Share capital repurchased	Share capital issued and paid in
Number of ordinary shares	1,846,461,466	295,059,613	–	1,551,401,853

20. Perpetual subordinated debt

In March 2018 the terms of subordinated loan attracted by the Group from Societe General S.A. in June 2008 in the amount of USD 150 million and annual interest rate of 9.34% and mature in June 2020 were modified. According to amended terms of the agreement Societe Generale S.A. granted to the Group perpetual subordinated loan in the amount of USD 150 million with an annual initial interest rate of 7.25% and annual interest payment. Rate of interest is to be reset every 5 years.

The Group accounts for the perpetual subordinated loan as an equity instrument in the consolidated statement of financial position due to undefined maturity and an option for cancellation of both the debt and the interest payment by the Group.

Interest payments may be cancelled in accordance with the terms of the perpetual subordinated loan. At the moment the interest under the perpetual subordinated loan becomes non-cancellable, it is recorded as a part of equity.

Central Bank of Russian Federation has approved the inclusion of the perpetual subordinated loan in the regulatory capital calculation of the Bank.

ROSBANK GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

21. Net interest income

	6 months ended 30 June mRUB (unaudited)		3 months ended 30 June mRUB (unaudited)	
	2018	2017	2018	2017
Interest income at effective interest rate				
<i>Interest income on financial assets recorded at amortised cost</i>				
Interest on loans to individuals	25,600	25,480	12,788	12,735
Interest on loans to corporate customers	9,418	10,726	4,937	5,257
Interest on due from banks	3,786	1,576	1,441	939
Interest on investments at amortised cost	2,171	–	1,154	–
Interest on investments held to maturity	–	1,842	–	912
Interest income on financial assets recorded at fair value through other comprehensive income	662	–	339	–
Interest income on investments available-for-sale	–	238	–	118
Total interest income at effective interest rate	41,637	39,862	20,659	19,961
Other interest income				
Interest income on financial assets at fair value through profit and loss	160	295	94	204
Total other interest income	160	295	94	204
Total interest income	41,797	40,157	20,753	20,165
Interest expense				
<i>Interest expense on financial liabilities recorded at amortised cost</i>				
Interest on corporate customer accounts	7,891	6,595	3,751	3,584
Interest on debt securities issued	6,318	7,531	3,051	3,600
Interest on deposits from individuals	5,590	5,091	2,818	2,664
Interest on subordinated debt	1,151	1,373	524	681
Interest on deposits from banks	913	1,176	384	486
Interest on deposits of the Central Bank of the Russian Federation	4	7	1	4
Total interest expense	21,867	21,773	10,529	11,019
Net interest income before credit loss expense/ provision for impairment losses	19,930	18,384	10,224	9,146

ROSBANK GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

22. Credit loss expense and other provisions

For 6 and 3 months ended 30 June 2018 and 2017 the amount of credit loss expenses / allowance for impairment losses in the interim condensed consolidated statement of profit or loss comprises:

	6 months ended 30 June mRUB (unaudited)		3 months ended 30 June mRUB (unaudited)	
	2018	2017	2018	2017
Net allocations	1,955	2,062	688	1,235
Recoveries of loans written off	(381)	(77)	(142)	(77)
Write offs not covered by provisions	52	21	38	(2)
Credit loss expenses / allowance for impairment losses	1,626	2,006	584	1,156

Write-offs not covered by provision in the amount of RUB 52 million and RUB 21 million for 6 months ended 30 June 2018 and 2017, respectively, represent losses incurred by the Group from refinancing program at a decreased interest rate the difference between the fair value at initial recognition of new loan and the carrying value of the previous loan is recognized as a loss from refinancing of US dollar denominated mortgage loans to individuals in the interim condensed consolidated statement of profit or loss.

The movements in allowance for impairment losses on were as follows:

	Due from banks mRUB	Loans to customers mRUB	Total mRUB
31 December 2016	–	53,737	53,737
Net allocations	297	1,765	2,062
Forex effect on provision revaluation	–	(195)	(195)
Sales and write-offs of loans	–	(5,616)	(5,616)
30 June 2017 (unaudited)	297	49,691	49,988

ROSBANK GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

An analysis of changes in the ECLs for financial assets for 6 months ended 30 June 2018 is, as follows:

	Cash and cash equivalents and due from banks mRUB (unaudited)	Loans to corporate business mRUB (unaudited)	Loans to retail business mRUB (unaudited)	Investments at amortised cost mRUB (unaudited)	Investments at FVOCI mRUB (unaudited)	Total mRUB (unaudited)
Stage 1						
ECL as at 1 January 2018	8	1,244	4,707	56	3	6,018
Transfers to Stage 1	–	(1)	250	–	–	249
Transfers to Stage 2	–	(5)	(51)	–	–	(56)
Transfers to Stage 3	–	–	(33)	–	–	(33)
Allowance charge	22	164	2,410	13	6	2,615
Recoveries	(26)	(224)	(2,570)	(17)	(6)	(2,843)
Foreign exchange adjustments	–	6	73	2	–	81
ECL as at 30 June 2018	4	1,184	4,786	54	3	6,031
Stage 2						
ECL as at 1 January 2018	3	74	1,051	–	–	1,128
Transfers to Stage 1	–	1	(126)	–	–	(125)
Transfers to Stage 2	–	251	151	–	–	402
Transfers to Stage 3	–	(7)	(645)	–	–	(652)
Allowance charge	–	97	1,119	–	–	1,216
Recoveries	(3)	(304)	(382)	–	–	(689)
Foreign exchange adjustments	–	–	2	–	–	2
ECL as at 30 June 2018	–	112	1,170	–	–	1,282
Stage 3						
ECL as at 1 January 2018	–	9,885	33,516	–	–	43,401
Transfers to Stage 1	–	–	(124)	–	–	(124)
Transfers to Stage 2	–	(246)	(99)	–	–	(345)
Transfers to Stage 3	–	7	677	–	–	684
Allowance charge	–	910	2,999	–	–	3,909
Recoveries	–	(348)	(2,354)	–	–	(2,702)
Amounts written off	–	(2,392)	(4,971)	–	–	(7,363)
Foreign exchange adjustments	–	102	121	–	–	223
ECL as at 30 June 2018	–	7,918	29,765	–	–	37,683
Total at 1 January 2018	11	11,203	39,274	56	3	50,547
Total at 30 June 2018	4	9,214	35,721	54	3	44,996

For 6 months ended 30 June 2018 and 2017 and for 3 months ended 30 June 2017 and 2016 the amount of other provision comprises:

	6 months ended 30 June mRUB (unaudited)		3 months ended 30 June mRUB (unaudited)	
	2018	2017	2018	2017
Net allocations	66	(101)	(13)	(478)
Recoveries of debtors receivables written off	(13)	(92)	(7)	(30)
Write offs not covered by provisions	30	21	20	(1)
Other provisions	83	(172)	–	(509)

ROSBANK GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

The movements in other provisions were as follows:

	Other assets mRUB	Provisions for financial guarantees issued, claims and other commitments mRUB	Total mRUB
31 December 2016	1,922	1,545	3,467
Provision	184	(285)	(101)
Write-offs	(922)	(68)	(990)
Forex effect on provision revaluation	–	–	–
30 June 2017 (unaudited)	1,184	1,192	2,376

The information about other provisions of the Group is disclosed in Note 29.

Allowance for impairment losses on assets is deducted from the respective assets. Provision for impairment losses on financial guarantees issued, claims and other commitments is presented in liabilities.

An analysis of changes in the ECLs for other financial assets financial guarantees, credit lines, letters of credit and for 6 months ended 30 June 2018 is, as follows:

	Provisions for financial guarantees, credit lines, letters of credit mRUB (unaudited)	Provision for other assets mRUB (unaudited)	Total mRUB (unaudited)
Stage 1			
ECL as at 1 January 2018	69	–	69
Transfers to Stage 1	3	–	3
Transfers to Stage 2	–	–	–
Transfers to Stage 3	(7)	–	(7)
Allowance charge	76	–	76
Recoveries	(68)	–	(68)
Foreign exchange adjustments	3	–	3
ECL as at 30 June 2018	76	–	76
Stage 2			
ECLs as at 1 January 2018	65	4	69
Transfers to Stage 1	(3)	–	(3)
Transfers to Stage 2	15	–	15
Transfers to Stage 3	–	–	–
Allowance charge	20	1	21
Recoveries	(73)	(1)	(74)
Foreign exchange adjustments	–	–	–
ECL as at 30 June 2018	24	4	28
Stage 3			
ECLs as at 1 January 2018	17	832	849
Transfers to Stage 1	–	–	–
Transfers to Stage 2	(15)	–	(15)
Transfers to Stage 3	7	–	7
Accounting transfer	–	–	–
Allowance charge	434	125	559
Recoveries	(13)	(52)	(65)
Amounts written off	–	(70)	(70)
Foreign exchange adjustments	2	–	2
ECL as at 30 June 2018	432	835	1,267
Total at 1 January 2018	151	836	987
Total at 30 June 2018	532	839	1,371

ROSBANK GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

The movements in provisions according to IAS 36 and IAS 37 were as follows:

	Provision for claims and other commitments mRUB (unaudited)	Provision for repossessed assets mRUB (unaudited)	Total mRUB (unaudited)
Provision as at 1 January 2018	277	495	772
Accounting transfer	–	26	26
Allowance charge	98	36	134
Recoveries	(62)	(6)	(68)
Amounts written off	–	(32)	(32)
Foreign exchange adjustments	(4)	–	(4)
	<u>309</u>	<u>519</u>	<u>828</u>
Provision as at 30 June 2018	309	519	828

23. Net gain/(loss) on financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards

Net loss on financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards comprises:

	6 months ended 30 June mRUB (unaudited)		3 months ended 30 June mRUB (unaudited)	
	2018	2017	2018	2017
Net gain/(loss) on operations with financial assets and liabilities held-for-trading comprise				
Realized gain/(loss) on trading operations	11	(28)	42	12
Unrealized revaluation of securities at fair value through profit or loss	(44)	28	(107)	11
Net gain/(loss) on operations with derivative financial instruments, except forex swaps and forwards	(480)	(869)	(191)	(517)
	<u>(513)</u>	<u>(869)</u>	<u>(256)</u>	<u>(494)</u>
Total net gain/(loss) on operations with financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards	(513)	(869)	(256)	(494)

ROSBANK GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

24. Net gain/(loss) on foreign exchange operations

	6 months ended 30 June		3 months ended 30 June	
	2018	mRUB (unaudited) 2017	2018	mRUB (unaudited) 2017
Net gain/(loss) on foreign exchange operations	1,355	1,563	700	870
Exchange differences	108	(80)	22	128
Effect of foreign currency swap instruments	48	649	125	503
Total net gain/(loss) on foreign exchange operations	1,511	2,132	847	1,501

25. Fee and commission income and expense

	6 months ended 30 June		3 months ended 30 June	
	2018	mRUB (unaudited) 2017	2018	mRUB (unaudited) 2017
Fee and commission income				
Agency operations	2,076	1,448	1,166	812
Plastic cards operations	1,729	1,304	887	681
Settlements	935	973	472	511
SMS-informing	500	441	265	230
Documentary operations	499	478	259	252
Internet bank	442	310	238	150
Cash operations	300	220	159	125
Other operations	511	509	250	283
Total fee and commission income	6,992	5,683	3,696	3,044
Fee and commission expense				
Plastic cards operations	1,002	763	525	400
Cash operations	247	309	95	173
Agency operations	199	99	102	51
Settlements	187	147	110	70
Documentary operations	30	31	12	15
Other operations	54	135	25	62
Total fee and commission expense	1,719	1,484	869	771

ROSBANK GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

26. Operating expenses

	6 months ended 30 June		3 months ended 30 June	
	2018	mRUB (unaudited) 2017	2018	mRUB (unaudited) 2017
Salary and bonuses	8,591	8,333	4,210	4,253
Unified social tax contribution	2,300	2,023	1,056	908
Operating lease expense	1,233	1,153	408	554
Depreciation charge on property and equipment	1,081	1,000	515	522
Repairs and maintenance expense	1,034	1,248	627	626
Professional services	881	802	455	461
Deposit insurance charge	765	512	395	266
Communications	460	385	241	195
Advertising and marketing expenses	432	384	209	189
Security	142	151	73	86
Transportation expenses	64	80	37	54
Other	1,062	1,288	520	587
Total operating expenses	18,045	17,359	8,746	8,701

27. Income tax

The Group measures and records its current income tax payable in its assets and liabilities in accordance with the tax regulations of RF and countries where the Group and its subsidiaries operate, which may differ from IFRS.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

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 as of 30 June 2018 and 31 December 2017 relate mostly to different methods / timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the RF on taxable profits (as defined) under tax law in that jurisdiction.

Based on semi-annual tax business planning exercise, the Group believes that it will generate sufficient taxable profits to recover the deferred tax assets recognized as of 30 June 2018.

Income tax (credit)/expense for 6 month and 3 months ended 30 June 2018 and 2017 comprise:

	6 months ended 30 June		3 months ended 30 June	
	2018	mRUB (unaudited) 2017	2018	mRUB (unaudited) 2017
Current tax charge	647	1,052	82	142
Deferred tax (credit)/charge- origination and reversal of temporary differences and tax loss carried forward	1,143	562	883	927
Less: deferred tax recognized directly in other comprehensive income	9	(59)	(20)	(32)
Income tax (credit)/expense	1,799	1,555	945	1,037

ROSBANK GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

28. Earnings per share attributable to equity holders of the parent

	6 months ended 30 June mRUB (unaudited)		3 months ended 30 June mRUB (unaudited)	
	2018	2017	2018	2017
Profit/(loss)				
Net profit/(loss) attributable to equity holders of the parent for the period (mRUB)	5,361	3,860	3,903	2,509
Weighted average number of ordinary shares				
For basic and diluted earnings per share	<u>1,551,401,853</u>	<u>1,551,401,853</u>	<u>1,551,401,853</u>	<u>1,551,401,853</u>
Earnings per share – basic and diluted (RUB)	<u>3.46</u>	<u>2.49</u>	<u>2.52</u>	<u>1.62</u>

29. Commitments and contingencies

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position.

The Group's maximum exposure to credit risk under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations. Extension of loans to customers within credit line limits is approved by the Group on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions.

	30 June 2018 mRUB (unaudited)	31 December 2017 mRUB
Provision for claims and other commitments	309	276
Provisions for financial guarantees, credit lines, letters of credit	<u>532</u>	<u>848</u>
Total other provisions	<u>841</u>	<u>1,124</u>

As of 30 June 2018 and 31 December 2017, letters of credit and other transactions related to contingent obligations covered by cash on customers' accounts amounted to RUB 163 million and RUB 910 million, respectively and guarantees issued covered by cash amounted to RUB 226 million and RUB 148 million, respectively.

ROSBANK GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

As of 30 June 2018 and 31 December 2017, the nominal or contract amounts were:

	30 June 2018 (unaudited) Nominal amount mRUB	31 December 2017 Nominal amount mRUB
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments	114,595	102,835
Commitments on loans and unused credit lines	75,538	64,225
Letters of credit and other transaction related contingent obligations	<u>17,210</u>	<u>15,386</u>
Total contingent liabilities and credit commitments	<u>207,343</u>	<u>182,446</u>

The Group has commitments to provide funds under credit lines facilities. However, the Group has a right not to exercise such commitments due to certain conditions.

Commitments on lease activities

As of 30 June 2018 and 31 December 2017 the Group has commitments for capital expenditure on finance lease outstanding amounting to RUB 438 million and RUB 270 million, respectively.

Operating lease commitments

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases of buildings and equipment are as follows:

	30 June 2018 mRUB (unaudited)	31 December 2017 mRUB
Not later than 1 year	1,807	2,041
Later than 1 year and not later than 5 years	3,479	2,907
Later than 5 years	<u>2,257</u>	<u>2,209</u>
Total operating lease commitments	<u>7,543</u>	<u>7,157</u>

Legal proceedings

From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred.

Taxation

The current provisions of the Russian laws and regulations affecting business continue to change rapidly. The implementation of Russian tax laws and regulations is often unclear or inconsistent. Historically, the system of tax collection in Russia has been relatively ineffective, resulting in the continual changes to the tax legislation, some of which applies retroactively and occurs with little notice, as well as in interpretation of the existing laws and regulations by various authorities. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that Russian tax authorities are taking more assertive position in their interpretation of the legislation and, as a result, transactions and activities that have not been challenged in the past may be challenged in future tax audits.

ROSBANK GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

Russian transfer pricing rules introduced additional reporting and documentation requirements. The Russian tax authorities may assess additional tax charges in respect of all controlled transactions (both domestic and cross-border), including but not limited to transactions with related parties, if they consider transactions to be priced not at arm's length. In light of the uncertainty and absence of extensive practice of application of the Russian transfer pricing legislation it cannot be fully excluded that the Russian tax authorities may try to challenge the methodology and the level of prices applied by the Group under the "controlled" transactions and accrue additional tax liabilities unless the Group is able to demonstrate the application of market prices in "controlled" transactions. The impact of the potential challenge of the Group's transfer pricing positions by the tax authorities cannot be reliably estimated.

Loan financing is one of the major parts Group's transactions. Management supposes that control procedure applied in the Group with respect to interest rates applied in intragroup loan financing mitigates potential transfer pricing tax risk.

Starting from 1 January 2015, new rules on taxation of controlled foreign companies were introduced into the Russian tax legislation, as well as the concept of determining the tax residency of organizations and the beneficial owner of income. The adoption of these rules in its entirety is associated with an increase in the administrative and, in some cases, tax burden on Russian taxpayers engaged in transactions with foreign companies. During 2018 the Group did not have foreign subsidiaries, in respect of which the Group could have significant tax liabilities in accordance with the rules on taxation of controlled foreign companies.

Since 1 January 2017, provisions of the Russian Tax Code regulating tax agent function execution in view of payments on certain types of income in favor of foreign recipients oblige tax agents to perform additional steps and collect documentary ground to ensure that the foreign company which receives income from the Group has an factual right to such income (is a beneficial owner of income). The Group has taken into account such legislative amendments and has started to perform procedures to receive from its counterparties documents confirming their actual right to income. The management believes that the procedures performed by the Group enable to mitigate potential tax risks arising from taxation of income in favor of counterparties.

Also starting from 1 January 2017 "losses carried forward" tax rule has been amended. In particular, the Bank may reduce its profits tax base of the current period by the amount of losses carried forward limited to 50% of profits tax base of the current period. This limitation is applicable till year 2021. Such tax law amendment leads to increase of tax payments of the Group. Management of the Group cannot exclude that new limitations in respect of tax losses carried forward may be introduced starting from 1 January 2021.

On 18 July 2017, the "unjustified tax benefit" concept was effectively introduced directly into the Russian Tax Code. Previously unjustified tax benefit concept was introduced only in the Russian court practice. The provisions of this article establish limits for possibility to qualify the transactions of taxpayers as transactions aimed at unjustified decrease of tax obligations. No assurance can currently be given as to what exact effect the above law may have on the Group.

Since 1 January 2018 the Russian Tax Code is supplemented with a new chapter setting forth the definitions of a multinational group of companies and members; it also would contains provisions regarding the submission of a notification of participation in a multinational group and country-by-country (CbC) reporting for a multinational group, such as the CbC report, the master file and local file.

Also since 1 January 2018 the Russian Tax Code is supplemented with a new section which establishes the rules on exchange of financial account information with foreign states and territories. Under the requirements relating to the automatic exchange of financial account information, Russian financial organizations are now required to perform additional procedures for the identification of their clients and beneficiaries and (or) controlling persons of those clients with a view to identifying tax residents of foreign states, and to submit annual reports on the accounts of those persons to the Federal Tax Service.

ROSBANK GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

Since 1 January 2018 the tax base with respect to income in the form of interest (coupon) from marketable Russian corporate bonds denominated in rubles and issued after 1 January 2017 is calculated as difference between the amount of interest or coupon payment and the amount of interest calculated based on the nominal value of bonds and the refinancing rate of the Bank of Russia, increased by five percentage points, valid for the period for which the coupon yield was paid.

Since 1 January 2018 income in the form of discount under marketable Russian corporate bonds denominated in rubles and issued after 1 January 2017 is exempted from personal income tax.

The introduction of these laws, as well as the interpretation of certain provisions of the Russian tax legislation combined with the latest trends in law enforcement indicate the possibility of increasing of the amount of taxes paid and the amount of penalties, including due to the fact that the Russian tax authorities and courts may be taking a more assertive position in their application of the legislation and assessments. At the same time the potential impact could not be reliably estimated, as well as the probability of an unfavorable outcome in the case of claims of the Russian tax authorities. Tax inspections may cover three calendar years immediately proceeding the year of review. The longer periods may be reviewed under certain conditions. As such, additional taxes, penalties and late payment interest may be assessed by the relevant authorities.

Management believes that as of 30 June 2018 the provisions of the tax laws were applicable to the Group companies were interpreted correctly.

Operating environment

Emerging markets such as Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russian Federation continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russian Federation is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russian Federation produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market, which decreased significantly during 2015 and has shown significant degree of volatility over 2016-2018. Management is unable to reliably estimate the effects of any further price fluctuations on the Group's financial position.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. At the same time, the US Federal Reserve System has accelerated the pace of interest rates hikes which should affect flows of capital to/from emerging economies such as Russian Federation. Global geopolitical landscape remains complicated due to stress around numerous regions.

As a consequence of these factors, Russian financial assets have suffered a material rise in volatility in April-June 2018. These developments may result in reduced access of the Russian businesses to international capital and export markets, capital flight, weakening of the Russian Rouble and other negative economic consequences.

The impact of further political and economic developments in Russian Federation on future operations and financial position of the Group is at this stage difficult to determine.

Share-based payments

The Group engages in cash settled share-based payment transactions in respect of services received from certain employees. The fair value of the services received is measured by reference to the fair value of the shares initially on the date of the grant and then subsequently at each reporting date. The cost of the employee services received in respect of the shares granted is recognized in the interim condensed consolidated statement of profit or loss within administrative expenses, over the period that the services are received, which is the vesting period. A liability equal to the portion of the goods and services received is recognized at the current fair value determined at each balance sheet date for cash settled payments.

ROSBANK GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

30. Transactions with related parties

Transactions between the Group and its subsidiaries, which are related parties of the Group, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below:

	Related party transactions	30 June 2018 mRUB (unaudited) Total category as per financial statement caption	Related party transactions	31 December 2017 mRUB Total category as per financial statement caption
Cash and cash equivalents	4,340	121,278	13,832	209,810
- shareholders	1,704	–	12,980	–
- related parties under common control with the Group	2,636	–	852	–
Financial assets at fair value through profit or loss	16,981	38,597	12,680	34,570
- shareholders	16,870	–	12,676	–
- related parties under common control with the Group	111	–	4	–
Loans to customers, gross	1,697	724,131	1,634	701,146
- key management personnel of the Group	2	–	5	–
- related parties under common control with the Group	1,695	–	1,629	–
Investments at fair value through other comprehensive income (previously classified as Investments available-for-sale)	–	21,910	79	15,160
- related parties under common control with the Group	–	–	79	–
Other assets	94	14,981	96	11,358
- shareholders	7	–	9	–
- related parties under common control with the Group	87	–	87	–
Financial liabilities at fair value through profit or loss	20,256	34,531	20,992	33,762
- shareholders	20,245	–	20,992	–
- related parties under common control with the Group	11	–	–	–
Due to banks and international financial institutions	5,949	42,742	3,899	32,089
- shareholders	3,229	–	2,659	–
- related parties under common control with the Group	2,720	–	1,240	–
Customer accounts	4,754	612,804	4,574	648,024
- key management personnel of the Group	371	–	298	–
- related parties under common control with the Group	4,383	–	4,276	–
Debt securities issued	118	129,743	–	146,304
- related parties under common control with the Group	118	–	–	–
Other liabilities	619	12,796	609	10,309
- shareholders	602	–	585	–
- related parties under common control with the Group	17	–	24	–
Subordinated debt	28,286	28,286	34,397	34,397
- shareholders	28,286	–	34,397	–
Perpetual subordinated debt	9,494	9,494	–	–
- shareholders	9,494	–	–	–
Guarantees issued and similar commitments	5,221	114,595	–	102,835
- shareholders	1,693	–	–	–
- related parties under common control with the Group	3,528	–	–	–
Commitments on loans and unused credit lines	13,468	75,538	13,551	64,225
- shareholders	5,000	–	5,000	–
- key management personnel of the Group	10	–	8	–
- related parties under common control with the Group	8,458	–	8,543	–
Guarantees received	3,229	280,679	3,326	270,157
- shareholders	2,992	–	2,856	–
- related parties under common control with the Group	237	–	470	–

ROSBANK GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

Included in the interim condensed consolidated statements of profit or loss for the 6 months ended 30 June 2018 and 2017 are the following amounts which arose due to transactions with related parties:

	6 months ended 30 June 2018		6 months ended 30 June 2017	
	Related party transactions	mRUB (unaudited) Total category as per financial statements caption	Related party transactions	mRUB (unaudited) Total category as per financial statements caption
Interest income	163	41,797	240	40,157
- shareholders	107	–	189	–
- key management personnel of the Group	–	–	1	–
- related parties controlled by, or under common control with the Group	56	–	50	–
Interest expense	(1,409)	(21,867)	(1,661)	(21,773)
- shareholders	(1,195)	–	(1,575)	–
- key management personnel of the Group	(9)	–	(8)	–
- related parties under common control with the Group	(205)	–	(78)	–
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards	(415)	(513)	117	(869)
- shareholders	(447)	–	(166)	–
- related parties under common control with the Group	32	–	283	–
Net gain/(loss) on foreign exchange operations and on precious metals operations	1,042	1,505	(341)	2,146
- shareholders	1,039	–	(349)	–
- related parties under common control with the Group	3	–	8	–
Fee and commission income	1,518	6,992	1,048	5,683
- shareholders	58	–	83	–
- related parties under common control with the Group	1,460	–	965	–
Fee and commission expense	(34)	(1,719)	(34)	(1,484)
- shareholders	(34)	–	(32)	–
- related parties under common control with the Group	–	–	(2)	–
Operating expense (other than compensation)	(362)	(7,154)	(187)	(7,003)
- shareholders	(354)	–	(168)	–
- related parties under common control with the Group	(8)	–	(19)	–
Dividend income	363	363	328	328
- related parties under common control with the Group	363	–	328	–
Other income	30	360	16	503
- shareholders	24	–	11	–
- related parties under common control with the Group	6	–	5	–

For the 6 months ended 30 June 2018 and 2017 total remuneration of the key management amounted to RUB 431 million and RUB 473 million, respectively.

31. Fair value of financial instruments

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IFRS 13 *Fair Value Measurement*. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (ie an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- Unquoted equities and debt securities classified as at fair value through other comprehensive income are valued using models that use both observable and unobservable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.
- For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a maturity.
- For loans and advances to banks and customers and deposits by banks and customers and promissory notes issued at variable rates management believes that carrying value may be assumed to be fair value.
- For loans and advances to banks and customers and deposits by banks and customers and promissory notes issued at fixed rates fair value has been estimated by reference to the market rates available at the balance sheet date for similar instruments of maturity equal to the remaining fixed period.
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

ROSBANK GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the interim condensed consolidated statement of financial position of the Group is presented below:

	30 June 2018 (unaudited)		31 December 2017	
	Carrying value, mRUB	Fair value, mRUB	Carrying value, mRUB	Fair value, mRUB
Cash and cash equivalents	121,278	121,278	209,810	209,810
Mandatory cash balances with the Central Bank of the Russian Federation	6,671	6,671	6,113	6,113
Financial assets at fair value through profit or loss:				
- <i>Derivative financial instruments</i>	32,575	32,575	31,334	31,334
- <i>Debt securities</i>	5,831	5,831	3,236	3,236
- <i>Shares</i>	191	191	–	–
Due from banks	12,146	12,573	11,767	11,802
Loans to customers	679,196	690,948	654,875	672,673
Investments at fair value through other comprehensive income (previously classified as Investments available-for-sale)	21,910	21,910	15,160	15,160
Investments at amortised cost (previously classified as Investments held to maturity)	90,110	90,207	73,479	76,720
Other financial assets	3,010	3,010	1,840	1,840
Financial liabilities at fair value through profit or loss	34,531	34,531	33,762	33,762
Due to the Central Bank of the Russian Federation	85	85	207	207
Due to banks and international financial institutions	42,742	43,699	32,089	33,209
Customer accounts	612,804	613,261	648,024	648,493
Debt securities issued	129,743	129,849	146,304	147,380
Other financial liabilities	9,537	9,537	7,861	7,861
Subordinated debt	28,286	28,340	34,397	34,666

Assets and liabilities for which fair value approximates carrying value

For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts.

ROSBANK GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

Fair value measurements recognised in the interim condensed consolidated statement of financial position

For the purpose of fair value hierarchy disclosure as at 30 June 2018 and 31 December 2017, the Group has categorized classes of assets and liabilities at fair value into Level 1 to 3 based on the degree to which their fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Balance sheet Category	30 June 2018, mRUB (unaudited)			31 December 2017, mRUB		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss:						
- <i>Derivative financial instruments</i>	–	32,575	–	–	31,334	–
- <i>Debt securities</i>	5,831	–	–	3,236	–	–
- <i>Shares</i>	–	191	–	–	–	–
Investments at fair value through other comprehensive income (previously classified as Investments available-for- sale)	21,910	–	–	14,969	191	–
Financial liabilities at fair value through profit or loss	2,050	32,481	–	1,906	31,856	–

Possibility of transfer from Level 1 to Level 2 category is assessed as low, as liquidity control is performed by Market Risk Department. Control period of liquidity assessment is 90 days from position opening. Market risk department performs liquidity analysis using position turnover, volumes of exchange trades, availability of exchange and brokers quotations. In case of position assessment as insufficiently liquid the necessary actions to close position are taken.

For financial instruments that are recognized at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Level 3 fair values of land and office buildings have been generally derived using the adjusted sales comparison approach and the income-based approach. Unobservable inputs included in the calculations for sales comparison approach represent various adjustments considered to account for the difference between the compared properties in terms of size, location, bargain prices to which sellers are willing to go (ranging from 0% to -15%). The unobservable inputs included in the income-based approach calculations represent mainly the adjustments considered to account for the discounting rates (ranging from 10% to 12%) and capitalization rates (from 9% to 12.5%).

The sensitivity of the fair value measurement to changes in those unobservable inputs indicated above does not result in a significantly higher or lower fair value measurement.

32. Segment reporting

The Group discloses information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. This matter is regulated by IFRS 8 *Operating Segments* and other standards that require special disclosures in the form of segmental reporting.

IFRS 8 defines an operating segment as follows. An operating segment is a component of an entity:

- That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- Whose operating results are reviewed regularly by the entity's 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.

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of services delivered or provided. The Group's reportable segments under IFRS 8 are therefore as follows:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.
- Treasury and Financial institutions – representing all trading financial instruments recognized and measured at fair value through profit and loss as well as loans and borrowings initiated through interbank transactions.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Transactions between the operating segments consist only of reallocating of funds. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Group's marginal funding price. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities. Internal charges and transfer pricing adjustments have been reflected in the performance of each business.

The main business activity of the Group is concentrated in RF, thus no geographical segmentation is reported.

ROSBANK GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

Segment information about these businesses is presented below.

	Retail banking	Corporate banking	Treasury and financial institutions	Unallocated	6 months ended 30 June 2018 (unaudited)
Net interest margin	12,535	4,426	534	2,435	19,930
Credit loss expense	(955)	(709)	(4)	42	(1,626)
Net gain/(loss) on financial transactions	231	7	712	113	1,063
Net fee and commission income	4,044	1,066	217	(54)	5,273
Other provisions	–	(25)	–	(58)	(83)
Dividend income	81	258	24	–	363
Other income	94	25	29	212	360
(Expense)/income from other segments	701	1,845	144	(2,690)	–
Total operating income	16,731	6,893	1,656	–	25,280
Operating expenses	(14,863)	(2,130)	(1,064)	12	(18,045)
(Expense)/income from other segments	3	8	1	(12)	–
Other non-operating income/ (expense)	(17)	(52)	(6)	–	(75)
Profit before income tax	1,854	4,719	587	–	7,160
Income tax expense	(411)	(1,250)	(138)	–	(1,799)
Net profit/(loss) for the period	1,443	3,469	449	–	5,361
Segment assets as at 30 June 2018 (unaudited)	469,638	473,332	52,074	14,011	1,009,055
Segment liabilities as at 30 June 2018 (unaudited)	374,216	419,002	57,918	12,335	863,471

Segment information for 6 months ended 30 June 2017 is presented below:

	Retail banking	Corporate banking	Treasury and financial institutions	Unallocated	6 months ended 30 June 2017 (unaudited)
Net interest margin	12,626	3,838	171	1,749	18,384
Provisions for impairment losses on interest bearing assets	(1,854)	(152)	–	–	(2,006)
Net gain/(loss) on financial transactions	68	5	1,127	77	1,277
Net fee and commission income	3,176	913	242	(132)	4,199
Other provisions	57	106	(3)	12	172
Dividend income	139	189	–	–	328
Other income	125	–	24	354	503
Intersegment allocation operating income	869	1,183	8	(2,060)	–
Total operating income	15,206	6,082	1,569	–	22,857
Operating expenses	(13,778)	(2,067)	(1,006)	(508)	(17,359)
Intersegment allocation operating expenses	(340)	(118)	(50)	508	–
Other non-operating income	(19)	(58)	(6)	–	(83)
Profit/(loss) before income tax	1,069	3,839	507	–	5,415
Income tax credit/(expense)	(348)	(1,093)	(114)	–	(1,555)
Net profit/(loss)	721	2,746	393	–	3,860
Segment assets as at 31 December 2017	443,385	458,332	126,633	12,565	1,040,915
Segment liabilities as at 31 December 2017	372,080	476,819	48,888	10,531	908,318

ROSBANK GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

For the purpose of the segment reporting disclosure the category “Net gain/(loss) on financial transactions” includes the following categories:

- Net (loss)/gain on financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards;
- Net gain/(loss) on foreign exchange operations;
- Net gain/(loss) on precious metals operations.

33. Subsequent events

In July 2018 the following bonds were redeemed:

Issuer	Issue date	Maturity date	Redeemed volume, mRUB	Annual coupon rate, %
Rusfinance Bank	30.06.2015	02.07.2018	152	8.1%
Rusfinance Bank	27.07.2013	18.07.2018	1,664	9.9%

In July 2018, DeltaCredit Bank JSC, in conjunction with DOM.RF, acting through the subsidiary DOM.RF, DOM.RF Mortgage Agent, implemented the following transaction within the framework of the program “The Factory of the FIS”:

- DeltaCredit Bank JSC sold DOM.RF Mortgage Agent a portfolio of mortgage loans to individuals for the amount of RUB 6,109 million;
- DOM.RF The Mortgage Agent issued amortised bonds in the amount of RUB 6,188 million secured by mortgage collateral. These bonds were issued in one tranche, and secured by mortgages to individuals acquired by the DOM.RF Mortgage Agent from DeltaCredit Bank JSC, and by the guarantee of DOM.RF. The coupon rate on the Bonds is fixed at 8% per annum. The structure of the transaction includes interest rate swap.