ROSBANK Group

Interim condensed consolidated financial statements

9 months ended 30 September 2018
(unaudited)

ROSBANK GROUP

TABLE OF CONTENTS

ROSBANK GROUP

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

	Notes	30 September 2018 (unaudited)	31 December 2017
ASSETS			
Cash and cash equivalents	6,7,30	125,794	209,810
Mandatory cash balances with the Central Bank of the Russian Federation	6	6,984	6,113
Financial assets at fair value through profit or loss	8 ,9, 30	33,518	34,570
Due from banks	6,10,30	11,854	11,767
Loans to customers	11	704,289	654,875
Investments at fair value through other comprehensive income	12,30	46,160	-
Investments at amortized cost	13	91,312	-
Investments available-for-sale	12,30	-	15,160
Investments held to maturity	13	-	73,479
Property and equipment		17,901	18,157
Intangible assets		3,464	2,569
Current income tax assets		439	198
Deferred income tax assets		1,336	2,859
Other assets	30	14,750	11,358
Total assets		**1,057,801**	**1,040,915**
LIABILITIES AND EQUITY			
LIABILITIES:			
Financial liabilities at fair value through profit or loss	9 ,14, 30	34,794	33,762
Due to the Central Bank of the Russian Federation		47	207
Due to banks and international financial institutions	15, 30	36,828	32,089
Customer accounts	16, 30	674,173	648,024
Debt securities issued	17, 30	119,251	146,304
Other provisions	22	1,234	1,124
Current income tax liabilities		157	580
Deferred income tax liabilities		1,255	1,522
Other liabilities	30	11,455	10,309
Subordinated debt	18, 30	29,192	34,397
Total liabilities		**908,386**	**908,318**
EQUITY:			
Share capital	19	17,587	17,587
Share premium		59,707	59,707
Perpetual subordinated debt	20, 30	9,875	-
Cumulative translation reserve		409	429
Property and equipment revaluation reserve		4,388	4,941
Fair value reserve		7	(1,073)
Cash flow and NIFE hedge		(34)	31
Retained earnings		57,476	50,975
Total equity		**149,415**	**132,597**
TOTAL LIABILITIES AND EQUITY		**1,057,801**	**1,040,915**

Chairman of the Management Board
I.A. Polyakov

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

26 November 2018
Moscow

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The notes on pages 8-39 form an integral part of these interim condensed consolidated financial statements.

ROSBANK GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR 9 MONTHS ENDED 30 SEPTEMBER 2018 (UNAUDITED)

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

	Notes	9 months ended 30 September (unaudited) 2018	2017	3 months ended 30 September (unaudited) 2018	2017
Interest income at effective interest rate	21, 30	62,580	60,931	20,943	21,001
Other interest income		199	261	39	34
Interest expense		(31,918)	(32,703)	(10,051)	(10,930)
Net interest income before credit loss expense/ provision for impairment losses		**30,861**	**28,489**	**10,931**	**10,105**
Credit loss expense/ provision for impairment losses	22, 30	(2,953)	(2,712)	(1,327)	(706)
Net interest income		**27,908**	**25,777**	**9,604**	**9,399**
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards	23, 30	(889)	(1,185)	(376)	(316)
Net gain/(loss) on foreign exchange operations	24	2,306	2,805	795	673
Net gain/(loss) on precious metals operations		(27)	14	(21)	-
Net realized gain on sale of Investments at fair value through other comprehensive income		67	-	(4)	-
Fee and commission income	25, 30	11,084	9,014	4,092	3,331
Fee and commission expense	25, 30	(2,732)	(2,304)	(1,013)	(820)
Other provisions	22, 30	(232)	150	(149)	(22)
Dividend income		363	328	-	-
Other income		818	726	458	223
Net non-interest income		**10,758**	**9,548**	**3,782**	**3,069**
Operating income		38,666	**35,325**	**13,386**	**12,468**
Operating expenses	26, 30	(26,995)	(25,797)	(8,950)	(8,438)
Other non-operating income/(expense)		(104)	(117)	(29)	(34)
Profit/(loss) before income tax		**11,567**	**9,411**	**4,407**	**3,996**
Income tax credit/(expense)	27	(2,752)	(2,394)	(953)	(839)
Net profit/(loss) for the period		**8,815**	**7,017**	**3,454**	**3,157**
EARNINGS PER SHARE					
Basic and diluted (in RUB)	28	5.68	4.52	2.23	2.03

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ROSBANK GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR 9 MONTHS ENDED 30 SEPTEMBER 2018 (UNAUDITED)
(in millions of Russian Rubles)

	Notes	9 months ended 30 September (unaudited)		3 months ended 30 September (unaudited)	
		2018	2017	2018	2017
Net profit/(loss) for the period		**8,815**	**7,017**	**3,454**	**3,157**
Other comprehensive income/(expense)					
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations		(4)	35	47	(83)
Income tax on translating foreign operations		(16)	(7)	(9)	17
Cash flow and NIFE hedge		(65)	190	(41)	146
Income tax on cash flow and NIFE hedge			(33)	-	(27)
Changes in allowance for expected credit losses of investments at fair value through other comprehensive income		-	-	-	-
Net change in fair value of investments at fair value through other comprehensive income		(80)	-	(1)	-
Income tax on fair value of investments at fair value through other comprehensive income during the period		16	-	-	
Net profit/(loss) resulting on revaluation of available-for-sale financial assets during period		-	28	-	5
Amounts recycled to profit and loss relating to available-for-sale financial assets		-	182	-	60
Income tax on available-for-sale financial assets during the period		-	(42)	-	(13)
Other comprehensive income/(expense) after income tax		**(149)**	**353**	**(4)**	**105**
Total comprehensive income/(expense)		**8,666**	**7,370**	**3,450**	**3,262**

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR 9 MONTHS ENDED 30 SEPTEMBER 2018 (UNAUDITED)

(in millions of Russian Roubles)

	Share capital	Share premium	Perpetual subor-dinated 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	-	-	-	-	-	-	-	7,017	7,017
Other comprehensive income/(expense) for the period	-	-	-	28	-	168	157	-	353
Total comprehensive income/(expense) for the period	**-**	**-**	**-**	**28**	**-**	**168**	**157**	**7,017**	**7,370**
Property and equipment disposal (net of deferred tax of RUB 81 millions)	-	-	-	-	(325)	-	-	325	-
30 September 2017 (unaudited)	**17,587**	**59,707**	**-**	**1,712**	**5,627**	**(1,141)**	**1**	**47,435**	**130,928**
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	-	-	9,875	-	-	-	-	-	9,875
Net profit/(loss) for the period	-	-	-	-	-	-	-	8,815	8,815
Other comprehensive income/(expense) for the period	-	-	-	(20)	-	(64)	(65)	-	(149)
Total comprehensive income/(expense) for the period	**-**	**-**	**-**	**(20)**	**-**	**(64)**	**(65)**	**8,815**	**8,666**
Property and equipment disposal (net of deferred tax of RUB 138 millions)	-	-	-	-	(553)	-	-	553	-
30 September 2018 (unaudited)	**17,587**	**59,707**	**9,875**	**409**	**4,388**	**7**	**(34)**	**57,476**	**149,415**

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ROSBANK GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR 9 MONTHS ENDED 30 SEPTEMBER 2018 (UNAUDITED)
(in millions of Russian Roubles)

	Notes	9 months ended 30 September (unaudited) 2018	2017
Cash flows from operating activities:			
Interest received		62,370	62,357
Interest paid		(32,114)	(30,663)
Fees and commissions received		11,059	8,989
Fees and commissions paid		(2,717)	(2,289)
Receipts from/(payment for) financial assets at fair value through profit or loss		(1,541)	(773)
Receipts from/(payment for) trading in foreign currencies		(819)	1,607
Other operating income received		740	682
Receipts from/(payment for) precious metals operations		(29)	94
Administrative and other operating expenses paid		(24,916)	(23,903)
Income tax received/(paid)		(1,729)	(1,614)
Cash flows from operating activities before changes in operating assets and liabilities		**10,304**	**14,488**
Changes in operating assets and liabilities			
Net (increase)/decrease in mandatory cash balances with the Central Bank of the Russian Federation		(871)	(1,371)
Net (increase)/decrease in financial assets at fair value through profit or loss		2,415	(1,734)
Net (increase)/decrease in due from banks		1,993	8,581
Net (increase)/decrease in loans to customers		(41,532)	(36,042)
Net (increase)/decrease in other assets		(4,282)	2,354
Net increase/(decrease) in financial liabilities at fair value through profit or loss		(556)	1,336
Net increase/(decrease) in due to the Central Bank of the Russian Federation		(160)	117
Net increase/(decrease) in due to banks and international financial institutions		2,273	5,634
Net increase/(decrease) in customer accounts		15,598	95,587
Net increase/(decrease) in debt securities issued, other than bonds issued		1,178	1,205
Net increase/(decrease) in other liabilities		884	(1,132)
Net increase/(decrease) in other liabilities on law cases		33	(31)
Net cash from/(used in) operating activities		**(12,723)**	**88,992**
Cash flows from investing activities			
Purchase of financial assets at fair value through other comprehensive income		(98,112)	-
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		67,090	-
Proceeds from redemption of financial assets at amortised cost		7,161	-
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 asstes		(2,905)	(1,758)
Proceeds from disposal of property and equipment		423	395
Dividend income received		363	328
Net cash from/(used in)investing activities		**(43,690)**	**1,283**
Cash flows from financing activities			
Redemption of bonds issued by the Group		(18,219)	(1,450)
Issue of bonds		-	11,000
Proceeds from sale of previously bought back bonds issued		187	1,273
Buy back of bonds issued		(10,206)	(31,989)
Repayment of subordinated debt		-	9,961
Issue of promissory notes		-	(3,550)
Net cash from/(used in) financing activities		**(28,238)**	**(14,755)**
Effect of exchange rate changes on the balance of cash held in foreign currencies		636	(2,218)
Net increase/(decrease) in cash and cash equivalents		**(84,015)**	**73,302**
CASH AND CASH EQUIVALENTS, beginning of the period	7	**209,810**	**112,992**
CASH AND CASH EQUIVALENTS, end of the period	7	**125,795**	**186,294**

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Moscow

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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 September 2018 and 31 December 2017 ROSBANK had 8 branches operating in the Russian Federation.

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

Name	Country of incorporation	Group's ownership interest / voting rights, %			Type of operations
		30 September 2018	31 December 2017	30 September 2017	
Delta Credit 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 Depositary LLC	Russia	100/100	100/100	100/100	Depositary servises
RB Service LLC	Russia	100/100	100/100	100/100	Service company
Telsikom CJSC	Russia	100/100	100/100	100/100	Telecommunication servises
SG 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.

In September 2018 the Group announced the merger of Rosbank and DeltaCredit expected to take place in the middle of 2019. The merger of resources, teams and businesses of Rosbank and DeltaCredit will allow the Group achieve further growth of its mortgage business and ensure more cross-sell opportunities.

As of 30 September 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.

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.

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 September 2018	31 December 2017
RUB/1 US Dollar	65.8355	57.6002
RUB/1 Euro	77.0407	68.6886
RUB/Gold (1 ounce)	78,163.20	74,678.66
RUB/Platinum (1 ounce)	53,655.93	53,395.39
RUB/Palladium (1 ounce)	72,024.04	60,825.81
RUB/Silver (1 ounce)	941.78	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.

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 restructuration.

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.

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		Reclas-	Remeasurement		IFRS 9 measurement	
	Category	Amount	sification	ECL	Other	Amount	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		30,442	–	–	–	30,442	
Deferred income tax assets		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)**	

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 reclassified from available-for-sale to FVOCI	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)
Restated opening balance under IFRS 9 (1 January 2018)	**71**
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
Restated opening balance under IFRS 9 (1 January 2018)	**48,108**
Total change in equity due to adopting IFRS 9	**(1,723)**

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 by recognizing the cumulative transition effect in opening retained earnings on 1 January 2018, without restating comparative information.

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 comprise:

	30 September 2018 mRUB (unaudited)	31 December 2017 mRUB
Cash	13,484	19,269
Balances with the Central Bank of the Russian Federation	30,191	111,521
Demand deposits in banks	15,271	15,892
Loans under reverse repurchase agreements	50,000	35,776
Due from banks with original maturity within 90 days	16,849	27,352
Cash and cash equivalents	**125,795**	**209,810**
Less – Allowance for impairment	(1)	-
Total cash and cash equivalents	**125,794**	**209,810**

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

	30 September 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	44,032	51,094	23,779	27,197
Bonds of the Russian Federation	1,987	2,097	2,430	2,771
Bonds of local authorities of Russian Federation	-	-	3,170	3,368
Bonds of the Russian banks	3,108	3,500	4,896	5,495
Shares of Russian banks	873	1,343	-	-
Shares of Russian companies	-	-	1,501	2,547
Total loans under reverse repurchase agreements	**50,000**	**58,034**	**35,776**	**41,378**

8. Financial assets at fair value through profit or loss

	30 September 2018 mRUB (unaudited)	31 December 2017 mRUB
Debt securities	399	3,204
Financial assets at fair value through profit or loss pleged under repurchases agreements	-	32
Derivative financial instruments (Note 9)	32,928	31,334
Shares	191	-
Total financial assets at fair value through profit or loss	**33,518**	**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 September 2018 (unaudited)		31 December 2017	
	Nominal interest rate %	**Amount mRUB**	**Nominal interest rate %**	**Amount mRUB**
Debt securities:				
Debt securities of Russian banks	-	-	8.45 - 10.4%	210
Debt securities of local authorities	-	-	7.6 - 7.7%	200
Debt securities of the Russian Federation	7.05 - 8.15 %	399	6.4 - 10.61%	1,400
Debt securities of Russian companies	-	-	2.25 - 8.8%	1,426
		399		**3,236**

9. Derivative financial instruments

Derivative financial instruments comprise:

	30 September 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	285,619	2,962	(3,118)	52,645	809	(3,394)
Forwards	102,637	395	(1,566)	42,485	2,377	(515)
IRS/CIRS	398,187	26,560	(25,945)	338,872	27,642	(27,476)
Cash flow and NIFE hedge	3,854	272	(80)	854	32	(1)
Foreign exchange and Interest rate options	89,009	909	(920)	2,012	43	(43)
Total foreign exchange contracts		**31,098**	**(31,629)**		**30,903**	**(31,429)**
Contracts on precious metals and commodities						
Forwards	52,329	1,740	(1,740)	5,893	427	(427)
Swaps	530	19	(4)	92	4	-
Options	6,471	71	(71)	10,887	-	-
Total contracts on precious metals and commodities		1,830	(1,815)		431	(427)
Total		**32,928**	**(33,444)**		**31,334**	**(31,856)**

Embedded derivatives

The Group issued structural bonds with embedded derivatives included in financial assets at fair value through profit and loss in amount RUB 3,625 million as at 30 September 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 3,904 million as at 30 September 2018 and amounted to RUB 3,998 million as at 31 December 2017, respectively.

10. Due from banks

	30 September 2018 mRUB (unaudited)	31 December 2017 mRUB Revised
Term deposits in banks	11,856	11,767
Less – Allowance for impairment	(2)	-
Total due from banks	**11,854**	**11,767**

11. Loans to customers

	30 September 2018 mRUB (unaudited)	31 December 2017 mRUB
Loans to Corporate business		
Loans to legal entities	287,493	273,062
Net investments in finance lease	16,521	14,875
Account receivable from RF Government on financed loans	2,439	4,283
Loans under reverse repurchase agreements	-	847
Loans to Retail business		
Loans to individuals	440,819	408,079
Loans to individuals at fair value through other comprehensive income	1,567	-
Total loans to customers before impairment	**748,839**	**701,146**
Less – Allowance for impairment	(44,550)	(46,271)
Total loans to customers	**704,289**	**654,875**

In 2018 the Group implemented a new business model in order to diversify the sources of income.

The Group decided to achieve this objective by both collecting contractual cash flows from its financial assets and also selling them. In July 2018 the Group made the successful first deal to sell a part of mortgage loans portfolio in the amount of RUB 6,106 million to DOM.RF Mortgage Agent. Starting from July 2018 newly originated loans eligible for future sales were classified to HTCS portfolio and measured at FVTOCI. As of 30 September 2018 the aggregate amount of loans to customers included loans measured at FVTOCI in the amount of RUB 1,567 million.

As of 30 September 2018 the Group had loans to four 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 September 2018 the amount receivable from RF Government on the financed car loan program amounted to RUB 2,439 million (as of 31 December 2017 – to RUB 4,283 million).

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

	30 September 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	-	-	847	960
Total loans under reverse repurchase agreements	**-**	**-**	**847**	**960**

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

	30 September 2018 mRUB (unaudited)	31 December 2017 mRUB
Debt securities	46,160	14,969
Equity investments	-	191
Investments at fair value through other comprehensive income (previously classified as Investments available-for-sale)	**46,160**	**15,160**

	30 September 2018 (unaudited)		31 December 2017	
	Nominal interest rate %	**Amount mRUB**	**Nominal interest rate %**	**Amount mRUB**
Debt securities:				
Bonds of the Russian Federation	6.5% - 7.5%	46,160	6.5% - 7.75%	14,969
		46,160		**14,969**

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

	30 September 2018 (unaudited)		31 December 2017	
	Nominal annual interest rate	**Amount mRUB**	**Nominal annual interest rate**	**Amount mRUB**
Eurobonds of the Russian Federation	3.5 -7.5%	44,037	3.5 - 11.0%	39,005
Bonds of the Russian Federation	7.0 -8.15%	46,073	7.0 - 7.6%	27,597
Eurobonds of Russian companies	3.37 -4.95%	1,249	3.37 - 9.13%	6,877
Less – Allowance for impairment		(47)		-
Investments at amortised cost (previously classified as Investments held to maturity)		**91,312**		**73,479**

14. Financial liabilities at fair value through profit or loss

	30 September 2018 mRUB (unaudited)	31 December 2017 mRUB
Derivative financial instruments	33,444	31,856
Short position on securities purchased	1,350	1,906
Total financial liabilities at fair value through profit or loss	**34,794**	**33,762**

Derivative financial instruments are disclosed in Note 9.

15. Due to banks and international financial institutions

	30 September 2018 mRUB (unaudited)	31 December 2017 mRUB
Time deposits	11,650	12,615
Demand accounts	24,483	18,436
Loans under repurchase agreements	695	1,038
Total due to banks and international financial institutions	**36,828**	**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 September 2018 and 31 December 2017 the Group has not breached any of these covenants.

As at 30 September 2018 and 31 December 2017 included in due to banks and international financial institutions are RUB 15,042 million and RUB 13,609 million (10% 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 30 September 2018 comprise:

	30 September 2018 (unaudited)		31 December 2017	
	Carrying value of loans mRUB	Fair value of collateral mRUB	Carrying value of loans mRUB	Fair value of collateral mRUB
Bonds of the Russian Federation	695	697	33	32
Bonds of the Russian Federation purchased by reverse repurchases agreements	-	-	1,005	1,006
Total	**695**	**697**	**1,038**	**1,038**

16. Customer accounts

	30 September 2018 mRUB (unaudited)	31 December 2017 mRUB
Corporate		
Time deposits	231,656	256,197
Repayable on demand	165,224	139,744
Total corporate	**396,880**	**395,941**
Individuals		
Time deposits	140,653	148,906
Repayable on demand	136,640	103,177
Total individuals	**277,293**	**252,083**
Total customer accounts	**674,173**	**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 September 2018 mRUB (unaudited)	Annual coupon rates %	31 December 2017 mRUB
Bonds of Deltacredit due in 2018-2026	5.00%-12.50%	61,683	8.00%-12.50%	72,627
Bonds of Rosbank due in 2020-2026	7.50%-10.40%	31,255	7.50%-10.40%	31,165
Bonds of Rusfinancebank due in 2018-2026	8.05%-10.00%	3,608	8.75%-13.90%	20,549
Exchange structual bonds of Rosbank due in 2024	7.43%-9.89%	10,000	9.89%-11.52%	10,000
Discount bearing promissory notes	0.00%-8.55%	12,705	0.00%-8.55%	11,963
Total debt securities issued		**119,251**		**146,304**

Changes in the balances for the 9 months ended 30 September 2018 were also due to a partial buyback of the bonds and operations with the bonds issued by its subsidiaries.

During the period January - September 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%
DeltaCredit Bank	05.08.2013	04.07.2018	626	8.7%
Rusfinance Bank	29.09.2015	29.03.2018	200	8.8%
Rusfinance Bank	08.10.2014	04.04.2018	4 000	11.0%
Rusfinance Bank	24.04.2013	24.04.2018	143	8.9%
Rusfinance Bank	24.11.2015	24.05.2018	2 844	10.1%
Rusfinance Bank	10.06.2014	13.06.2018	3 593	10.1%
Rusfinance Bank	30.06.2015	02.07.2018	152	8.01%
Rusfinance Bank	25.07.2013	18.07.2018	1 665	9.9%

18. Subordinated debt

	Currency	Interest Rate %	30 September 2018 mRUB (unaudited)	Interest Rate, %	31 December 2017 mRUB
Societe Generale S.A. due in 2020-2023	USD	6.5 - 10.2%	29,192	6.5-9.3%	34,397
Total subordinated debt			**29,192**		**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 September 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 September 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 September 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.

21. Net interest income

		9 months ended 30 September mRUB (unaudited)		3 months ended 30 September mRUB (unaudited)
	2018	**2017**	**2018**	**2017**
Interest income at effective interest rate:				
Interest income on financial assets recorded at amortized cost:				
Interest on loans to individuals	38,669	38,491	13,069	13,011
Interest on loans to corporate customers	14,118	16,206	4,700	5,480
Interest on due from banks	4,913	3,107	1,127	1,463
Interest on investments at amortised cost	3,462	-	1,291	-
Interest on investments held to maturity	-	2,775	-	933
Interest income on financial asssets recorded at fair value through other comprehensive income				
Interest income on investments at fair value through other comprehensive income	1,390	-	728	-
Interest on loans to individuals at fair value through other comprehensive income	28	-	28	-
Interest income on investments available-for-sale	-	352	-	114
Total interest income at effective interest rate	**62,580**	**60,931**	**20,943**	**21,001**
Other interest income				
Interest income on financial assets at fair value through profit and loss	199	261	39	34
Total other interest income	**199**	**261**	**39**	**34**
Total interest income	**62,779**	**61,192**	**20,982**	**21,035**

	9 months ended 30 September mRUB (unaudited)		3 months ended 30 September mRUB (unaudited)	
	2018	**2017**	**2018**	**2017**
Interest expense:				
Interest expense on financial liabilities recorded at amortized cost:				
Interest on corporate customer accounts	11,422	10,035	3,531	3,440
Interest on debt securities issued	9,130	10,946	2,812	3,415
Interest on deposits from individuals	8,304	7,910	2,714	2,819
Interest on subordinated debt	1,709	2,070	558	697
Interest on deposits from banks	1,348	1,729	435	553
Interest on deposits of the Central Bank of the Russian Federation	5	13	1	6
Total interest expense	**31,918**	**32,703**	**10,051**	**10,930**
Net interest income before loss expense/ provision for impairment losses	**30,861**	**28,489**	**10,931**	**10,105**

22. Credit loss expense and other provisions

For 9 and 3 months ended 30 September 2018 and 2017 the amount of credit loss expenses / allowance for impairment losses in the interim condensed consolidated statement of profit or loss comprises:

	9 months ended 30 September mRUB (unaudited)		3 months ended 30 September mRUB (unaudited)	
	2018	**2017**	**2018**	**2017**
Net allocations	3,347	2,857	1,392	795
Recoveries of loans written off	(449)	(177)	(68)	(100)
Write offs not covered by provisions	55	32	3	11
Credit loss expenses/ allowance for impairment losses	**2,953**	**2,712**	**1,327**	**706**

The movements in allowance for impairment losses were as follows:

	Due from banks mRUB	Loans to customers mRUB	Total mRUB
31 December 2016	**-**	**53,737**	**53,737**
Net allocations	263	2,594	2,857
Forex effect on provision revaluation	(3)	(206)	(209)
Sales and write-offs of loans	(260)	(6,632)	(6,892)
30 September 2017 (unaudited)	**-**	**49,493**	**49,493**

An analysis of changes in the ECLs for financial assets for 9 months ended 30 September 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	-	(2)	310	-	-	308
Transfers to Stage 2	-	(4)	(68)	-	-	(72)
Transfers to Stage 3	-	-	(53)	-	-	(53)
Allowance charge	24	247	3,838	13	11	4,133
Recoveries	(29)	(321)	(3,787)	(25)	(10)	(4,172)
Foreign exchange adjustments	-	10	108	3	-	121
ECL as at 30 September 2018	**3**	**1,174**	**5,055**	**47**	**4**	**6,283**
Stage 2						
ECL as at 1 January 2018	**3**	**74**	**1,051**	**-**	**-**	**1,128**
Transfers to Stage 1	-	2	(132)	-	-	(130)
Transfers to Stage 2	-	250	223	-	-	473
Transfers to Stage 3	-	(7)	(782)	-	-	(789)
Allowance charge	-	102	1,485	-	-	1,587
Recoveries	(3)	(337)	(603)	-	-	(943)
Foreign exchange adjustments	-	2	4	-	-	6
ECL as at 30 September 2018	**-**	**86**	**1,246**	**-**	**-**	**1,332**
Stage 3						
ECL as at 1 January 2018	**-**	**9,761**	**33,640**	**-**	**-**	**43,401**
Transfers to Stage 1	-	-	(178)	-	-	(178)
Transfers to Stage 2	-	(246)	(156)	-	-	(402)
Transfers to Stage 3	-	7	834	-	-	841
Allowance charge	-	998	4,607	-	-	5,605
Recoveries	-	(411)	(3,360)	-	-	(3,771)
Amounts written off	-	(2,456)	(6,364)	-	-	(8,820)
Foreign exchange adjustments	-	132	181	-	-	313
ECL as at 30 September 2018	**-**	**7,785**	**29,204**	**-**	**-**	**36,989**
Total at 1 January 2018	**11**	**11,079**	**39,398**	**56**	**3**	**50,547**
Total at 30 September 2018	**3**	**9,045**	**35,505**	**47**	**4**	**44,604**

For 9 months ended 30 September 2018 and 2017 and for 3 months ended 30 September 2018 and 2017 the amount of other provision comprises:

	9 months ended 30 September mRUB (unaudited)		3 months ended 30 September mRUB (unaudited)	
	2018	**2017**	**2018**	**2017**
Net allocations	206	(51)	140	50
Recoveries of debtors receivables written off	(23)	(121)	(10)	(29)
Write offs not covered by provisions	49	22	19	1
Other provisions	**232**	**(150)**	149	**22**

The movements in other provisions for 9 months ended 30 September 2017 is, 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	250	(301)	(51)
Write-offs	(1,094)	(89)	(1,183)
Forex effect on provision revaluation	-	7	7
30 September 2017 (unaudited)	**1,078**	**1,162**	**2,240**

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 9 months ended 30 September 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	117	-	117
Recoveries	(112)	-	(112)
Foreign exchange adjustments	2	-	2
ECL as at 30 September 2018	**72**	**-**	**72**
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	21	1	22
Recoveries	(80)	(1)	(81)
Foreign exchange adjustments	-	-	-
ECL as at 30 September 2018	**18**	**4**	**22**
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	876	181	1,057
Recoveries	(26)	(69)	(95)
Amounts written off	-	(114)	(114)
Foreign exchange adjustments	21	-	21
ECL as at 30 September 2018	**880**	**830**	**1,710**
Total at 1 January 2018	**151**	**836**	**987**
Total at 30 September 2018	**970**	**834**	**1,804**

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**
Allowance charge	85	245	330
Recoveries	(108)	(16)	(124)
Amounts written off	(5)	(18)	(23)
Foreign exchange adjustments	15	-	15
Provision as at 30 September 2018	**264**	**706**	**970**

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:

	9 months ended 30 September mRUB (unaudited)		3 months ended 30 September 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	(118)	(11)	(129)	17
Unrealized revaluation of securities at fair value through profit or loss	(12)	64	32	36
Net gain/(loss) on operations with derivative financial instruments, except forex swaps and forwards	(759)	(1,238)	(279)	(369)
Total net gain/(loss) on operations with financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards	**(889)**	**(1,185)**	**(376)**	**(316)**

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

	9 months ended 30 September mRUB (unaudited)		3 months ended 30 September mRUB (unaudited)	
	2018	**2017**	**2018**	**2017**
Net gain/(loss) on foreign exchange operations	2,362	2,302	1,007	739
Exchange differences	67	(258)	(41)	(178)
Effect of foreign currency swap instruments	(123)	761	(171)	112
Total net gain/(loss) on foreign exchange operations	**2,306**	**2,805**	**795**	**673**

25. Fee and commission income and expense

	9 months ended 30 September mRUB (unaudited)		3 months ended 30 September mRUB (unaudited)	
	2018	**2017**	**2018**	**2017**
Fee and commission income:				
Agency operations	3,268	2,339	1,192	891
Plastic cards operations	2,791	2,036	1,062	732
Settlements	1,443	1,441	508	468
SMS-informing	807	699	307	258
Documentary operations	797	733	298	255
Internet bank	709	547	267	237
Cash operations	471	470	171	250
Other operations	798	749	287	240
Total fee and commission income	**11,084**	**9,014**	**4,092**	**3, 331**
Fee and commission expense:				
Plastic cards operations	1,606	1,289	604	517
Cash operations	363	408	116	99
Agency operations	364	192	165	93
Settlements	275	244	88	97
Documentary operations	44	45	14	14
Other operations	80	126	26	-
Total fee and commission expense	**2,732**	**2,304**	**1,013**	**820**

26. Operating expenses

	9 months ended 30 September mRUB (unaudited)		3 months ended 30 September mRUB (unaudited)	
	2018	**2017**	**2018**	**2017**
Salary and bonuses	13,054	12,295	4,463	3,962
Unified social tax contribution	3,303	2,981	1,003	958
Operating lease expense	1,824	1,874	591	626
Depreciation charge on property and equipment	1,739	1,552	658	552
Repairs and maintenance expense	1,538	1,651	504	498
Professional services	1,234	1,200	353	398
Deposit insurance charge	1,173	807	408	295
Communications	710	605	250	220
Advertising and marketing expenses	625	603	193	219
Security	205	223	63	72
Transportation expenses	101	127	37	47
Other	1,489	1,879	427	591
Total operating expenses	**26,995**	**25,797**	**8,950**	**8,438**

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 September 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 September 2018.

Income tax (credit)/expense for 9 month and 3 months ended 30 September 2018 and 2017 comprise:

	9 months ended 30 September mRUB (unaudited)		3 months ended 30 September mRUB (unaudited)	
	2018	2017	2018	2017
Current tax charge	1,065	1,906	418	854
Deferred tax (credit)/charge- origination and reversal of temporary differences and tax loss carried forward	1,687	570	544	8
Less: deferred tax recognized directly in other comprehensive income	-	(82)	(9)	(23)
Income tax (credit)/expense	**2,752**	**2,394**	**953**	**839**

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

	9 months ended 30 September mRUB (unaudited)		3 months ended 30 September mRUB (unaudited)	
	2018	2017	2018	2017
Profit/(loss)				
Net profit/(loss) attributable to equity holders of the parent for the period (mRUB)	8 815	7,017	3 454	3,157
Weighted average number of ordinary shares				
For basic and diluted earnings per share	1,551,401,853	1,551,401,853	1,551,401,853	1,551,401,853
Earnings per share - basic and diluted (RUB)	**5.68**	**4.52**	**2.23**	**2.03**

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 September 2018 mRUB (unaudited)	31 December 2017 mRUB
Provision for claims and other commitments	264	276
Provisions for financial guarantees, credit lines, letters of credit	970	848
Total other provisions	**1,234**	**1,124**

As of 30 September 2018 and 31 December 2017, letters of credit and other transactions related to contingent obligations covered by cash on customers' accounts amounted to RUB 477 million and RUB 910 million, respectively and guarantees issued covered by cash amounted to RUB 126 million and RUB 148 million, respectively.

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

	30 September 2018 (unaudited) Nominal amount mRUB	31 December 2017 Nominal amount mRUB
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments	121,531	102,835
Commitments on loans and unused credit lines	78,183	64,225
Letters of credit and other transaction related contingent obligations	17,099	15,386
Total contingent liabilities and credit commitments	**216,813**	**182,446**

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 September 2018 and 31 December 2017 the Group has commitments for capital expenditure on finance lease outstanding amounting to RUB 765 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 September 2018 mRUB (unaudited)	31 December 2017 mRUB
Not later than 1 year	1,723	2,041
Later than 1 year and not later than 5 years	3,319	2,907
Later than 5 years	2,186	2,209
Total operating lease commitments	**7,228**	**7,157**

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.

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 January 1, 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 January 1, 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 January 1, 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 January 1, 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 January 1, 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.

Since January 1, 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 January 1, 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 January 1, 2018 income in the form of discount under marketable Russian corporate bonds denominated in rubles and issued after January 1, 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 September 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 July-September 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. As a consequence of these trends, in September 2018 the Russian Central Bank delivered a 25bp key rate hike to 7.50%.

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.

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:

	30 September 2018 mRUB (unaudited)		31 December 2017 mRUB	
	Related party transactions	Total category as per financial statement caption	Related party transactions	Total category as per financial statement caption
Cash and cash equivalents, gross	10,252	125 795	13,832	209,810
- shareholders	7,162		12,980	
- related parties under common control with the Group	3,090		852	
Financial assets at fair value through profit or loss	14,920	33,518	12,680	34,570
- shareholders	14,789		12,676	
- related parties under common control with the Group	131		4	
Loans to customers, gross	2,099	748,839	1,634	701,146
- key management personnel of the Group	3		5	
- related parties under common control with the Group	2,096		1,629	
Investments at fair value through other comprehensive income (previously classified as Investments available-for-sale)	-	46,160	79	15,160
- related parties under common control with the Group	-		79	
Other assets	188	14,750	96	11,358
- shareholders	8		9	
- related parties under common control with the Group	180		87	
Financial liabilities at fair value through profit or loss	22,725	34,794	20,992	33,762
- shareholders	22,720		20,992	
- related parties under common control with the Group	5			

	30 September 2018 mRUB (unaudited) Related party transactions	Total category as per financial statement caption	31 December 2017 mRUB Related party transactions	Total category as per financial statement caption
Due to banks and international financial institutions	9,803	36,828	3,899	32,089
- shareholders	7,144		2,659	
- related parties under common control with the Group	2,659		1,240	
Customer accounts	4,512	674,173	4,574	648,024
- key management personnel of the Group	293		298	
- related parties under common control with the Group	4,219		4,276	
Debt securities issued	95	119,251	-	146,304
- related parties under common control with the Group	95		-	
Other liabilities	820	11,455	609	10,309
- shareholders	811		585	
- related parties under common control with the Group	9		24	
Subordinated debt	29,192	29,192	34,397	34,397
- shareholders	29,192		34,397	
Perpetual subordinated debt	9,875	9,875	-	-
- shareholders	9,875		-	
Guarantees issued and similar commitments	6,066	121,531	-	102,835
- shareholders	1,023		-	
- related parties under common control with the Group	5,043		-	
Commitments on loans and unused credit lines	14,698	78,183	13,551	64,225
- shareholders	5,000		5,000	
- key management personnel of the Group	5		8	
- related parties under common control with the Group	9,693		8,543	
Guarantees received	4,271	291,502	3,326	270,157
- shareholders	4,016		2,856	
- related parties under common control with the Group	255		470	

Included in the interim condensed consolidated statements of profit or loss for the 9 months ended 30 September 2018 and 2017 are the following amounts which arose due to transactions with related parties:

	9 months ended 30 September 2018 mRUB (unaudited)		9 months ended 30 September 2017 mRUB (unaudited)	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Interest income	236	62,779	347	61,192
- shareholders	151		269	
- key management personnel of the Group	-		1	
- related parties controlled by, or under common control with the Group	85		77	
Interest expense	(2,097)	(31,918)	(2,581)	(32,703)
- shareholders	(1,795)		(2,287)	
- key management personnel of the Group	(13)		(12)	
- related parties under common control with the Group	(289)		(282)	
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards	1,521	(889)	(2,885)	(1,185)
- shareholders	1,461		(3,128)	
- related parties under common control with the Group	60		243	
Net gain/(loss) on foreign exchange operations and on precious metals operations	(579)	2,279	(128)	2,819
- shareholders	(597)		(145)	
- related parties under common control with the Group	18		17	
Fee and commission income	2,465	11,084	1,758	9,014
- shareholders	107		129	
- related parties under common control with the Group	2,358		1,629	
Fee and commission expense	(50)	(2,732)	(51)	(2,304)
- shareholders	(50)		(49)	
- related parties under common control with the Group			(2)	
Operating expense (other than compensation)	(265)	(10,638)	(284)	(10,521)
- shareholders	(265)		(260)	
- related parties under common control with the Group	-		(24)	
Dividend income	363	363	328	328
- related parties under common control with the Group	363		328	
Other income	83	818	37	726
- shareholders	74		29	
- related parties under common control with the Group	9		8	

For the 9 months ended 30 September 2018 and 2017 total remuneration of the key management amounted to RUB 569 million and RUB 626 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 available-for-sale 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.

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 September 2018 (unaudited)	31 December 2017

	Carrying value, mRUB	Fair value, mRUB	Carrying value, mRUB	Fair value, mRUB
Cash and cash equivalents	125,794	125,794	209,810	209,810
Mandatory cash balances with the Central Bank of the Russian Federation	6,984	6,984	6,113	6,113
Financial assets at fair value through profit or loss				
- Derivative financial instruments	32,928	32,928	31,334	31,334
- Debt securities	399	399	3,236	3,236
- Shares	191	191	-	-
Due from banks	11,854	11,499	11,767	11,802
Loans to customers	704,289	720,982	654,875	672,673
Investments at fair value through other comprehensive income (previously classified as Investments available-for-sale)	46,160	46,160	15,160	15,160
Investments at amortised cost (previously classified as Investments held to maturity)	91,312	90,438	73,479	76,720
Other financial assets	2,523	2,523	1,840	1,840
Financial liabilities at fair value through profit or loss	34,794	34,794	33,762	33,762
Due to the Central Bank of the Russian Federation	47	47	207	207
Due to banks and international financial institutions	36,828	37,552	32,089	33,209
Customer accounts	674,173	674,791	648,024	648,493
Debt securities issued	119,251	117,227	146,304	147,380
Other financial liabilities	8,543	8,543	7,861	7,861
Subordinated debt	29,192	29,662	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.

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

For the purpose of fair value hierarchy disclosure as at 30 September 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	**30 September 2018, mRUB (unaudited)**			**31 December 2017, mRUB**		
Category	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Financial assets at fair value through profit or loss						
- Derivative financial instruments	-	32,928	-	-	31,334	-
- Debt securities	399	-	-	3,236	-	-

- Shares		191			-	
Investments at fair value through other comprehensive income (previously classified as Investments available-for-sale)	46,160	-	-	14,969	191	-
Financial liabilities at fair value through profit or loss	1,350	33,444	-	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, the income-based approach and the costs method. 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.

Segment information about these businesses is presented below.

	Retail banking	Corporate banking	Treasury and Financial institutions	Unallocated	9 months ended 30 September 2018 (unaudited)
Net interest margin	19,005	6,911	909	4,036	30,861
Credit loss expense	(2,007)	(1,151)	(2)	207	(2,953)
Net gain/(loss) on financial transactions	375	7	1,146	(71)	1,457
Net fee and commission income	6,372	1,727	331	(78)	8,352
Other provisions	(25)	-	-	(207)	(232)
Dividend income	81	258	24	-	363
Other income	374	23	40	381	818
(Expense)/income from other segments	1,239	2,784	245	(4,268)	-
Total operating income	**25,414**	**10,559**	**2,693**	**-**	**38,666**
Operating expenses	(22,386)	(3,193)	(1,456)	40	(26,995)
(Expense)/income from other segments	22	13	5	(40)	-
Other non-operating income/(expense)	(24)	(72)	(8)	-	(104)
Profit before income tax	3,026	7,307	1,234	-	11,567
Income tax expense	(629)	(1,911)	(212)	-	(2,752)
Net profit/(loss) for the period	**2,397**	**5,396**	**1,022**	**-**	**8,815**
Segment assets as at 30 September 2018 (unaudited)	**490,472**	**506,489**	**49,180**	**11,660**	**1,057,801**
Segment liabilities as at 30 September 2018 (unaudited)	**367,685**	**481,815**	**47,746**	**11,140**	**908,386**

Segment information for 9 months ended 30 September 2017 is presented below

	Retail banking	Corporate banking	Treasury and Financial institutions	Unallocated	9 months ended 30 September 2017 (unaudited)
Net interest margin	19,198	6,071	311	2,909	28,489
Provisions for impairment losses	(2,431)	(301)	-	20	(2,712)
Net gain/(loss) on financial transactions	78	14	1,622	(80)	1,634
Net fee and commission income	5,015	1,477	335	(117)	6,710
Other provisions	123	147	(3)	(117)	150
Dividend income	139	189	-	-	328
Other income	168	-	35	523	726
Intersegment allocation operating income	1,342	1,790	6	(3,138)	-
Total operating income	**23,632**	**9,387**	**2,306**	**-**	**35,325**
Operating expenses	(20,733)	(3,076)	(1,507)	(481)	(25,797)
Intersegment allocation operating expenses	(326)	(106)	(49)	481	-
Other non-operating income	(26)	(83)	(8)	-	(117)
Profit/(loss) before income tax	2,547	6,122	742	-	9,411
Income tax credit/(expense)	(533)	(1,701)	(160)	-	(2,394)
Net profit/(loss)	**2,014**	**4,421**	**582**	**-**	**7,017**
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**

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 October 2018 the following bonds were redeemed:

Issuer	Issue date	Maturity date	Debt volume, mRUB	Annual coupon rate, %
Rusfinance Bank	09.10.2013	02.10.2018	254	8.05%

In October 2018 the Group repurchased the following bonds at the put option date:

Issuer	Issue date	Offer date	Debt volume, mRUB	Annual coupon rate, %
ROSBANK	22.09.2015	01.10.2018	7 583	7.20%
DeltaCredit Bank	30.09.2015	03.10.2018	5 000	5.00%