Report on Review of Interim Financial Information

Joint stock company Russian Agricultural Bank and its subsidiaries

for the three-month period ended 31 March 2018

May 2018

Contents | Page

Совершенствуя бизнес,
улучшаем мир

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/ru

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

Report on Review of Interim Financial Information

To the Shareholder and Supervisory Board of
Joint stock company Russian Agricultural Bank

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Joint stock company Russian Agricultural Bank and its subsidiaries, which comprise the interim consolidated statement of financial position as at 31 March 2018, the interim consolidated statement of profit or loss and other comprehensive income, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the three-month period then ended, and selected explanatory notes (interim financial information). Management of Joint stock company Russian Agricultural Bank is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

Совершенствуя бизнес,
улучшаем мир

Conclusion

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

G.A. Shinin
Partner
Ernst & Young LLC

29 May 2018

Details of the entity

Name: Joint stock company Russian Agricultural Bank
Record made in the State Register of Legal Entities on 22 October 2002, State Registration Number 1027700342890.
Address: Russia 119034, Moscow, Gagarinsky per., 3.

Details of the auditor

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

In millions of Russian Roubles	Note	31 March 2018 (unaudited)	31 December 2017
Assets			
Cash and cash equivalents		421 975	586 437
Mandatory cash balances with the Bank of Russia		19 903	19 112
Trading securities		16 293	17 507
Financial instruments at fair value through profit or loss		2 169	2 091
Due from other banks		35 085	25 937
Derivative financial instruments	17	47 526	50 114
Loans and advances to customers	5	1 791 920	1 765 760
Investment securities		414 312	338 538
Current income tax assets		494	407
Deferred income tax asset		16 297	16 298
Intangible assets		4 009	3 861
Premises and equipment		37 330	37 438
Other assets		22 280	25 181
Assets of the disposal groups held for sale and assets held for sale		361	338
Total assets		**2 829 954**	**2 889 019**
Liabilities			
Derivative financial instruments	17	4 073	3 363
Due to other banks	6	56 786	52 757
Customer accounts	7	2 211 507	2 203 577
Promissory notes issued		39 624	36 946
Bonds issued	8	253 605	244 561
Current income tax liability		588	20
Deferred income tax liability		687	512
Other liabilities		21 792	23 423
Total liabilities before subordinated debts		**2 588 662**	**2 565 159**
Subordinated debts		133 577	133 444
Total liabilities		**2 722 239**	**2 698 603**
Equity			
Share capital		385 598	385 598
Perpetual bonds	9	15 000	15 000
Revaluation reserve for premises		1 041	1 052
Revaluation reserve for investment securities at fair value through other comprehensive income		3 883	3 001
Accumulated loss		(297 674)	(214 214)
Equity attributable to the Bank's shareholder		**107 848**	**190 437**
Non-controlling interest		**(133)**	**(21)**
Total equity		**107 715**	**190 416**
Total liabilities and equity		**2 829 954**	**2 889 019**

Approved for issue and signed on behalf of the Management Board on 29 May 2018.

«Российский Сельскохозяйственный банк» АО «Россельхозбанк» МОСКВА

B.P. Listov
Acting Chairman of the Management Board

E.A. Romankova
Deputy Chairman of the Management Board, Chief Accountant

(Unaudited) *In millions of Russian Roubles*	**Note**	**For the three months ended 31 March** **2018**	**2017**
Interest income	10	58 816	60 812
Interest expense	10	(41 369)	(45 982)
Net interest income		**17 447**	**14 830**
Credit loss expense	11	(10 615)	(12 867)
Net interest income after credit loss expense		**6 832**	**1 963**
Fee and commission income	12	5 634	4 858
Fee and commission expense	12	(955)	(440)
(Losses net of gains)/gains less losses from trading securities		(33)	367
Gains less losses from financial instruments at fair value through profit or loss		57	43
Gains less losses/(losses net of gains) from investment securities at fair value through other comprehensive income		1 797	(122)
Foreign exchange translation gains less losses		889	14 482
Losses net of gains from derivative financial instruments		(411)	(15 719)
Gains less losses from dealing in foreign currencies		98	1 269
Gains from non-banking activities		2 655	2 799
Losses from non-banking activities		(1 783)	(2 044)
Other operating (expense)/income		(163)	494
Administrative and other operating expenses		(12 106)	(11 295)
Profit/(loss) before tax		**2 511**	**(3 345)**
Income tax expense		(1 635)	(564)
Profit/(loss) for the period		**876**	**(3 909)**
Profit/(loss) is attributable to:			
Shareholder of the Bank		988	(3 912)
Non-controlling interest		(112)	3
Profit/(loss) for the period		**876**	**(3 909)**
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Securities at fair value through other comprehensive income:			
- Net gains on investment securities at fair value through other comprehensive income		1 737	1 981
- Realised revaluation reserve (at disposal)		(1 797)	122
- Reserve		17	-
Income tax		1	(421)
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods, net of tax		**(42)**	**1 682**
Total other comprehensive (loss)/income		**(42)**	**1 682**
Total comprehensive income/(loss) for the period		**834**	**(2 227)**
Total comprehensive income/(loss) for the period is attributable to:			
Shareholder of the Bank		946	(2 230)
Non-controlling interest		(112)	3
Total other comprehensive income/(loss) for the period		**834**	**(2 227)**

The notes set out on pages 9 to 42 form an integral part of these interim condensed consolidated financial statements.

		Attributable to shareholder of the Bank							
In millions of Russian Roubles	**Note**	**Share capital**	**Perpetual bonds**	**Revaluation reserve for premises**	**Revaluation reserve for investment securities**	**Accumula-ted loss**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 31 December 2016		**335 598**	**15 000**	**1 092**	**5 740**	**(192 807)**	**164 623**	**(4)**	**164 619**
Loss for the period, net of tax		-	-	-	-	(3 912)	**(3 912)**	3	**(3 909)**
Other comprehensive income for the period, net of tax		-	-	-	1 682	-	**1 682**	-	**1 682**
Total comprehensive income/(loss) for the period, net of tax		**-**	**-**	**-**	**1 682**	**(3 912)**	**(2 230)**	**3**	**(2 227)**
Share issue		5 000	-	-	-	-	**5 000**	-	**5 000**
Depreciation of revaluation reserve for premises		-	-	(10)	-	10	**-**	-	**-**
Coupon paid and due under perpetual bonds		-	-	-	-	(403)	**(403)**	-	**(403)**
Tax effect recognized on perpetual bonds		-	-	-	-	81	**81**	-	**81**
Balance at 31 March 2017 (unaudited)		**340 598**	**15 000**	**1 082**	**7 422**	**(197 031)**	**167 071**	**(1)**	**167 070**
Balance at 31 December 2017		**385 598**	**15 000**	**1 052**	**3 001**	**(214 214)**	**190 437**	**(21)**	**190 416**
Impact of adopting IFRS 9		-	-	-	924	(84 138)	(83 214)	-	**(83 214)**
Restated opening balance under IFRS 9		**385 598**	**15 000**	**1 052**	**3 925**	**(298 352)**	**107 223**	**(21)**	**107 202**
Income/(loss) for the period, net of tax		-	-	-	-	988	**988**	(112)	**876**
Other comprehensive loss for the period, net of tax		-	-	-	(42)	-	**(42)**	-	**(42)**
Total comprehensive income/(loss) for the period, net of tax		**-**	**-**	**-**	**(42)**	**988**	**946**	**(112)**	**834**
Depreciation of revaluation reserve for premises		-	-	(11)	-	11	**-**	-	**-**
Coupon paid and due under perpetual bonds	9	-	-	-	-	(401)	**(401)**	-	**(401)**
Tax effect recognized on perpetual bonds		-	-	-	-	80	**80**	-	**80**
Balance at 31 March 2018 (unaudited)		**385 598**	**15 000**	**1 041**	**3 883**	**(297 674)**	**107 848**	**(133)**	**107 715**

(Unaudited) *In millions of Russian Roubles*	Note	For the three months ended 31 March 2018	2017
Cash flows from operating activities			
Interest received		54 450	66 488
Interest paid		(43 547)	(41 868)
Income received from trading in securities and financial instruments at fair value through profit or loss		1 618	328
Income received from derivative financial instruments		2 888	135
Income received from dealing in foreign currencies		99	1 269
Fees and commissions received		6 183	4 137
Fees and commissions paid		(955)	(439)
Other operating income received		474	1 042
Net income received from insurance operations		782	93
Income received from non-banking activities		2 880	1 261
Losses incurred from non-banking activities		(2 171)	(2 139)
Administrative and other operating expenses paid		(12 797)	(8 818)
Income tax paid		(718)	(786)
Cash flows from operating activities before changes in operating assets and liabilities		**9 186**	**20 703**
Changes in operating assets and liabilities			
Net (increase)/decrease in operating assets			
Mandatory cash balances with the Bank of Russia		(792)	(4 892)
Trading securities		1 139	(8 825)
Financial instruments at fair value through profit or loss		27	563
Due from other banks		(8 838)	23 141
Loans and advances to customers		(117 083)	(86 970)
Other assets		3 676	(128)
Net increase/(decrease) in operating liabilities			
Due to other banks		4 662	10 955
Customer accounts		9 198	(8 153)
Promissory notes issued		1 796	18 217
Other liabilities		(3 875)	3 242
Net cash used in operating activities		**(100 904)**	**(32 147)**
Cash flows from investing activities			
Acquisition of premises and equipment		(731)	(1 835)
Proceeds from disposal of premises and equipment		151	121
Acquisition of intangible assets		(212)	(287)
Acquisition of investment securities		(274 802)	(30 887)
Proceeds from disposal of investment securities		203 628	34 274
Net cash (used in)/from investing activities		**(71 966)**	**1 386**
Cash flows from financing activities			
Issue of ordinary shares		-	5 000
Proceeds from bonds issued		24 837	10 000
Repayment of bonds issued		(11 812)	(26 949)
Proceeds from sale of previously bought back bonds issued on domestic market		13	9 176
Buy back of subordinated debt		(426)	-
Buy back of bonds issued at or prior to put option date		(3 074)	(21 365)
Proceeds from sale of previously bought back Eurobonds issued		3 428	11 323
Buy back of Eurobonds issued		(4 865)	(10 436)
Amounts paid on perpetual bonds	9	(723)	(723)
Proceeds from sale of non-controlling interests in consolidated mutual funds		12	272
Payments on disposal of non-controlling interests in consolidated mutual funds		(7)	(46)
Net cash from/(used in) financing activities		**7 383**	**(23 748)**
Effect of exchange rate changes on cash and cash equivalents		1 026	(7 351)
Effect of expected credit losses on cash and cash equivalents		(1)	-
Net decrease in cash and cash equivalents		**(164 462)**	**(61 860)**
Cash and cash equivalents at the beginning of the period		586 437	326 033
Cash and cash equivalents at the end of the period		**421 975**	**264 173**

1 Introduction

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) for the three months ended 31 March 2018 for Joint Stock Company Russian Agricultural Bank (the “Bank”) and its subsidiaries (together referred to as the “Group”).

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a joint stock company limited by shares and was set up in accordance with Russian regulations.

The Bank’s only shareholder is the Russian Federation acting through the Federal Agency for Managing State Property which holds the Bank’s issued and outstanding ordinary shares (75.63% from total share capital (31 December 2017: 75.63% from total share capital)), the Ministry of Finance of the Russian Federation which holds the Bank’s issued and outstanding preference shares (6.5% from total share capital (31 December 2017: 6.5% from total share capital)) and the State Corporation “Deposit Insurance Agency” which holds the Bank’s issued and outstanding preference shares (17.87% from total share capital (31 December 2017: 17.87% from total share capital)).

The Group’s structure comprises of the Bank and its subsidiaries. Principal subsidiaries of the Bank are Joint-stock company "RSHB-Insurance" (ownership interest of the Bank is 100%), RSHB Capital S.A. Societe Anonyme (Luxembourg) (structured entity incorporated for Eurobonds issue for the Bank), "RSHB Asset Management" Limited Liability Company (ownership interest of the Bank is 100%) and 31 companies operating in agricultural and other industries and mutual funds.

Principal activity. The Bank’s principal business activity is commercial and retail banking operations in the Russian Federation with emphasis on lending to agricultural enterprises. The main objectives of the Bank are:

- To participate in realisation of the monetary policy of the Russian Federation in the area of agricultural production;
- To develop within the agricultural industry a national system of lending to the domestic agricultural producers; and
- To maintain an effective and uninterrupted performance of the settlement system in the area of agricultural production across the Russian Federation.

The Bank has operated under a full banking license issued by the Bank of Russia since 13 June 2000. The Bank participates in the State deposit insurance scheme, which was introduced by Federal Law # 177-FZ *Deposits of Individuals Insurance in Russian Federation* dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual and/or individual entrepreneur current accounts and deposits up to RR 1 400 thousand per individual or individual entrepreneur in case of the withdrawal of a licence of a bank or the Bank of Russia imposed moratorium on payments.

The Bank has 69 (31 December 2017: 70) branches within the Russian Federation. The Bank’s registered address is 119034 Russia, Moscow, Gagarinsky Pereulok, 3. The Bank’s principal place of business is 119019 Russia, Moscow, Arbat, 1.

The number of the Group’s employees as at 31 March 2018 was 29 419 (31 December 2017: 29 940).

Presentation currency. These interim condensed consolidated financial statements are presented in Russian Roubles (“RR”). All amounts are expressed in RR millions unless otherwise stated.

2 Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretation.

Economic indicators of the first quarter 2018 reflect weakening the main negative factors for economic development. The duration and depth of the recession were largely caused by such factors as unfavourable raw material market conjuncture, particularly, significant drop in crude oil prices, the effect of international sanctions imposed against certain Russian companies and individuals, reduction of investments and decline in the household consumption.

These events may have a further significant impact on the Group’s future operations and financial position, the effect of which is difficult to predict.

2 Operating Environment of the Group (Continued)

During the three months ended 31 March 2018, the following were the key changes in selected macro-economic indicators:

- The Bank of Russia exchange rate appreciated from RR 57.6002 to RR 57.2649 per US Dollar;
- The Bank of Russia key rate decreased from 7.75% p.a. to 7.25% p.a.;
- The RTS stock exchange index increased from 1154.4 to 1249.4.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

3 Summary of Significant Accounting Policies

Basis of preparation. These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2017, which have been prepared in accordance with IFRS.

The functional currency of the Bank and its subsidiaries, and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles. As at 31 March 2018 the principal rates of exchange used for translating foreign currency balances were USD 1 = RR 57.2649 (31 December 2017: USD 1 = RR 57.6002), EUR 1 = RR 70.5618 (31 December 2017: EUR 1 = RR 68.8668).

The accounting policies applied in the preparation of these 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 changes introduced due to implementation of new and/or revised standards and interpretations as at 1 January 2018 or as at the date indicated, noted below. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 9 Financial Instruments. IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods on or after 1 January 2018. The Bank 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

IFRS 9 includes three principal classification categories for financial assets: financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income (FVOCI) and financial assets measured at fair value through profit or loss (FVTPL). It eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

Business model assessment

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 at fair value through profit or loss (FVTPL). 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 FVTPL. 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 contractual cash flows" basis are measured at amortised cost;
- Instruments that are managed on a "hold to collect contractual cash flows 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, are measured at FVTPL.

3 Summary of Significant Accounting Policies (Continued)

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- How the performance of the portfolio is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated — e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

All financial assets not classified as measured at amortised cost at FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Assessment whether contractual cash flows are solely payments of principal and interest

As a part of its classification process the Group assesses the contractual terms of financial assets to identify whether they meet SPPI test.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets, e.g. non-recourse asset arrangements; and
- Features that modify consideration for the time value of money, e.g. periodic reset of interest rates.

All of the Group's retail loans and certain fixed-rate corporate loans contain prepayment features. A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

Equity financial assets are required to be classified at initial recognition as FVTPL 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 FVTPL. Embedded derivatives are no longer separated from a host financial asset.

3 Summary of Significant Accounting Policies (Continued)

Impact assessment

The Group has finalised the business model and SPPI test assessment:

- Trading assets and derivative assets held for risk management, which are classified as held-for-trading and measured at FVTPL under IAS 39, will also be measured at FVTPL under IFRS 9;
- Loans and advances to banks and to customers that are classified as loans and receivables and measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9;
- Debt investment securities that are classified as available-for-sale under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on the particular circumstances.

The impact of these changes is not significant on The Group's financial statement.

(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 FVTPL, 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 lifetime ECL), 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 (12-month ECL). The 12-month ECL is the portion of lifetime ECL 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 lifetime ECL and 12-month ECL 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 and Stage 3, as described below:

- *Stage 1:* When loans do not have factors that indicate a significant increase in credit risk and are not in default at the reporting date, Group recognises an allowance based on ECL over one year.
- *Stage 2:* When loans have factors that indicate a significant increase in credit risk, but are not in default at the reporting date, Group records an allowance for the lifetime ECL.
- *Stage 3:* When loans are considered credit-impaired (defaulted) at the reporting date, Group recognises an allowance based on ECL resulting from all possible cash flows arising from different recovery scenarios given default already happened.

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.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and measured as follows:

- Financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls — i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive, where ECL from including undrawn loan commitments are estimated using credit conversion factor (CCF);
- Financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
- Financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Group expects to recover.

3 Summary of Significant Accounting Policies (Continued)

Financial assets that are credit-impaired are defined by IFRS 9 in a similar way to financial assets that are impaired under IAS 39.

Definition of default

Under IFRS 9, the Group considers a financial asset to be in default when there is available information that:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- The borrower is more than 90 days past due on the respective material credit obligation to the Group. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Group considers indicators that are:

- Qualitative;
- Quantitative: e.g. overdue status; and
- Based on data developed internally and obtained from external sources (e.g. insolvency or bankruptcy loan registers).

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Credit ratings and risk grades

The Group allocates each exposure to a credit rating or a risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement.

Credit ratings and client’s score are primary inputs into the determination of the probability of default (PD) estimation and development under IFRS 9 framework.

The Group also employs statistical models to analyze internal and external data to generate estimates lifetime PD-s and how these are expected to change as a result of the passage of time.

This analysis includes — where reasonable and supportable information is available — the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, as well as analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macroeconomic indicators are likely to include variables such as GDP growth, benchmark interest rates and unemployment.

Determining whether credit risk has increased significantly

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Group consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis consisting — based on availability and complexity — of the Group’s historical experience, expert credit assessment and forward-looking information.

The criteria may vary by portfolio and will include a backstop based on delinquency in accordance with IFRS 9. As a backstop, and as required by IFRS 9, the Group will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Group determines days past due by counting the number of days since the earliest elapsed due date in respect of which full payment — subject to materiality threshold — has not been received.

The Group primarily identifies whether a significant increase in credit risk has occurred for an exposure by comparing:

- Credit rating as at the reporting date; with
- Credit rating that was estimated on initial recognition of the exposure.

The Group also may, using its expert credit judgement and, where possible, relevant historical experience, determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so.

The Group monitors the suitability of the criteria used to identify significant increases in credit risk by regular reviews to confirm that results of assessment are compliant with IFRS 9 and internal guidelines.

3 Summary of Significant Accounting Policies (Continued)

Modified assets and liabilities

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

For the accounting purposes the Group defines significant and non-significant modification of financial assets. In case of significant modification the changing of contractual conditions (changing of currency of the financial instrument (besides conversion of the loan to rubles due to bankruptcy procedure/court decision), changing of interest rate from fix to float or float to fix and including/excluding conditions in the loan agreement which affect the SPPI test result) leads to derecognition of financial instrument.

In case of non-significant modification of financial assets or financial liabilities, the Group recalculates the gross carrying amount of a financial asset as the present value of the estimated future cash payments or receipts through the expected life of the renegotiated or modified financial asset's original effective rate.

The contractual terms of a financial liabilities may be significantly modified in case of changes contractual conditions of present values of the estimated future cash flows, including commission payments after commission income received discounted on liabilities' original effective rate more than 10% of the discounted present value of the rest cash flows on original financial liability.

Under IFRS 9, when the terms of a financial asset are modified due to borrowers financial difficulties and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly should reflect comparison of:

- The PD at the reporting date based on the modified terms; with
- The PD estimated based on data on initial recognition and terms of the original contract.

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

Generally, forbearance is a qualitative indicator of default and credit impairment and expectations of forbearance are relevant to assessing whether there is a significant increase in credit risk.

Following forbearance, a customer needs to demonstrate consistently good payment behaviour over a period of time or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are the following variables:

- Probability of default (PD) including lifetime PD-s;
- Loss given default (LGD);
- Credit conversion factor (CCF); and
- Exposure-at-default (EAD).

These parameters derived — alone or together — from internally developed statistical models based on own historical data or derived from available market data.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data.

3 Summary of Significant Accounting Policies (Continued)

Forward-looking information

Under IFRS 9, the Group incorporates forward-looking information as part of measurement of ECLs. External information used may include economic data and forecasts published by governmental bodies and monetary authorities in Russia.

The Group based on data availability and credibility of sources — using an analysis of historical data to estimate relationships between macro-economic variables and credit risk and credit losses. The key drivers include variables such as interest rates, unemployment rates, GDP forecasts and other.

(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/(accumulated loss) 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 1 January 2018 is as follows:

in millions of Russian Roubles	**Ref**	**IAS 39 measure-ment category**	**IFRS 9 measure-ment category**	**Amount**	**Reclas-sifycation**	**Remeasu-rement (ECL)**	**Remeasu-rement (other)**	**Amount**
Financial assets								
Cash and cash equivalents		Loans and receivables	Amortised cost	586 437	-	(22)	-	586 415
Trading securities		FVTPL	FVTPL (mandatory)	17 507	-	-	-	17 507
Financial instruments at fair value through profit or loss		FVTPL	FVTPL (mandatory)	2 091	-	-	-	2 091
Due from other banks		Loans and receivables	Amortised cost	25 937	-	(236)	-	25 701
Derivative financial instruments		FVTPL	FVTPL (mandatory)	50 114	-	-	-	50 114
Loans and advances to customers		Loans and receivables	Amortised cost	1 765 760	(28 968)	(71 154)	(9 947)	1 655 691
To: Loans to customers at FVTPL	A			-	*(28 968)*	-	-	-
Loans to customers at FVTPL		-	FVTPL (mandatory)	-	25 689	-	(1 667)	24 022
From: Loans and advances to customers	A			-	*25 689*	-	-	-
Investment securities, including pledged under repurchase agreements — amortised cost		Hold to maturity	Amortised cost	64 685	3 279	(116)	-	67 848
From: Loans and advances to customers				-	*3 279*	-	-	-
Investment securities, including pledged under repurchase agreements — debt securities at FVOCI		Available for sale	FVOCI (debt)	273 569	-	-	-	273 569
Investment securities, including pledged under repurchase agreements — equity securities at FVOCI	B	Available for sale	FVOCI (equity)	284	-	-	-	284
Non-financial assets								
Deferred tax assets				16 298	-	-	-	16 298
Other				86 337	-	-	-	86 337
Total assets				**2 889 019**	**-**	**(71 528)**	**(11 614)**	**2 805 877**
Non-financial liabilities								
Deferred tax liabilities				512	-	-	-	512
Provisions for loan commitments				552	-	72	-	624
Other				2 697 539	-	-	-	2 697 539
Total liabilities				**2 698 603**	**-**	**72**	**-**	**2 698 675**

A As of 1 January 2018, the Group's analysis highlighted that certain loans to customers did not meet the SPPI criterion. Therefore, these loans previously measured at amortised cost are classified by Group as financial assets at FVTPL.

B The Group has elected the option to irrevocably designate its previous AFS equity instruments as Equity instruments at FVOCI.

3 Summary of Significant Accounting Policies (Continued)

The impact of transition to IFRS 9 on reserves and retained earnings/(accumulated loss) is as follows:

In millions of Russian Roubles	**Retained earnings/ (accumulated loss)**
Fair value reserve	
Closing balance under IAS 39 (31 December 2017)	3 001
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	924
Restated opening balance under IFRS 9 (1 January 2018)	**3 925**
Retained earnings/(accumulated loss)	
Closing balance under IAS 39 (31 December 2017)	(214 214)
Re-measurement impact of reclassifying financial assets held at amortised cost to FVTPL	(1 667)
Recognition of IFRS 9 ECLs including those measured at FVOCI	(72 524)
Other changes (including modification effect)	(9 947)
Restated opening balance under IFRS 9 (1 January 2018)	**(298 352)**
Total change in equity due to adopting IFRS 9	**(83 214)**

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.

In millions of Russian Roubles	**Provision for loan impairment at 31 December 2017**	**Remeasure-ment**	**Gross up interest on impaired loans**	**ECL under IFRS 9 at 1 January 2018**
Impairment allowance for financial assets				
Loans and advances to customers	(203 081)	(71 154)	(71 713)	**(345 948)**
Cash and cash equivalents	-	(22)	-	**(22)**
Due from other banks	(203)	(236)	-	**(439)**
Held to maturity securities per IAS 39/Investment securities at amortised cost under IFRS 9	-	(116)	-	**(116)**
Debt financial assets at FVOCI	-	(924)	-	**(924)**
Total impairment allowance for financial assets	**(203 284)**	**(72 452)**	**(71 713)**	**(347 449)**
Impairment allowance for financial liabilities				
Credit related commitments	(552)	(72)	-	**(624)**
Total impairment allowance for financial assets and credit related commitments	**(203 836)**	**(72 524)**	**(71 713)**	**(348 073)**

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.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The accounting estimates and judgements applied in the preparation of these interim condensed consolidated financial statements are consistent with those applied in the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2017.

Judgements that have the most significant effect on the amounts recognised in the interim condensed consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial period include:

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values. Refer to Note 17.

Deferred income tax asset recognition. The recognized deferred tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the interim consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances and approved by the management of the Bank. A key assumption in the business plan is to obtain profits in subsequent financial years through widening of product range and client base.

Structured entities. The Group considers RSHB Capital S.A. incorporated for Eurobonds issue for the Bank as consolidated structured entity under IFRS 12 requirements. As at 31 March 2018 the Group guarantees all obligations of the consolidated structured entity represented by Eurobonds issued in the amount of RR 103 080 million and subordinated debts in the amount of RR 29 640 million (31 December 2017: Eurobonds issued in the amount of RR 113 819 million and subordinated debts in the amount of RR 29 202 million). During three months ended 31 March 2018 and the year ended 31 December 2017 the Group did not provide any other financial support to the consolidated structured entity. The Group has no other current obligation or intention neither to provide financial or other support to the consolidated structured entity nor to assist it in obtaining financial support.

Holding Corporate Eurobonds in the trading and investment portfolios of the Group is considered under IFRS 12 requirements as interest in unconsolidated structured entities. Maximum exposure equals to carrying value of Corporate Eurobonds.

Changes in presentation. Started from 31 March 2018, the Group presents losses from impairment of investment securities and provision for credit related commitments and other assets impairment within credit loss expense. The reclassification and its impact on comparative period information for three months ended 31 March 2017 in the consolidated statement of profit or loss and other comprehensive income are as follows:

	For the three months ended 31 March 2017		
In millions of Russian Roubles	**As previously reported**	**Reclassification**	**As adjusted**
Credit loss expense	(12 368)	499	(12 867)
Losses from impairment of investment securities	(452)	452	-
Provision for credit related commitments and other assets impairment	(47)	47	-

5 Loans and Advances to Customers

In millions of Russian Roubles	**31 March 2018 (unaudited)**	**31 December 2017**
Loans to legal entities		
- Loans to corporates	1 692 210	1 565 696
- Lending for food interventions	37 536	36 458
Subfederal bonds	-	3 279
Loans to individuals	388 409	363 408
Total loans and advances to customers at amortised cost (before impairment)	**2 118 155**	**1 968 841**
Less: allowance for impairment	(344 434)	(203 081)
Total loans and advances to customers at amortised cost	**1 773 721**	**1 765 760**
Loans to customers at fair value through profit or loss (2017: not applicable)	18 199	n/a
Total loans and advances to customers	**1 791 920**	**1 765 760**

Lending for food interventions is represented by loans to the company under the control of the Russian Federation.

As at 31 March 2018, the Group has loans before impairment to ten largest borrowers (groups of borrowers) in the total amount of RR 511 206 million, or 24% of total loans and advances to customers before impairment (31 December 2017: the Group has loans before impairment to ten largest borrowers (groups of borrowers) in the total amount of RR 487 922 million, or 25% of total loans and advances to customers before impairment).

No purchased or originated credit impaired assets were recognised as at reporting date.

5 Loans and Advances to Customers (Continued)

An analysis of changes in the ECL allowances during the three months ended 31 March 2018 is, as follows:

(Unaudited) *In millions of Russian Roubles*	Stage 1	Stage 2	Stage 3	Total
Loans to legal entities				
ECL as at 1 January 2018	**14 100**	**14 234**	**284 964**	**313 298**
Transfers to Stage 1	1 503	(1 503)	-	**-**
Transfers to Stage 2	(112)	12 338	(12 226)	**-**
Transfers to Stage 3	(285)	(2 028)	2 313	**-**
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations	2 760	2 825	3 112	**8 697**
Unwind of discount (recognised in interest income)	-	-	(536)	**(536)**
Changes due to modifications not resulting in derecognition	-	36	7	**43**
Amounts written off	-	-	(1 027)	**(1 027)**
Foreign exchange adjustments	(10)	46	(2)	**34**
Provision for loans sold during the period	-	-	(9 885)	**(9 885)**
Recovery of loans previously written off sold during the period	-	-	38	**38**
Recovery of loans previously written off	-	-	86	**86**
ECL as at 31 March 2018	**17 956**	**25 948**	**266 844**	**310 748**

(Unaudited) *In millions of Russian Roubles*	Stage 1	Stage 2	Stage 3	Total
Loans to individuals				
ECL as at 1 January 2018	**2 806**	**994**	**28 850**	**32 650**
Transfers to Stage 1	241	(241)	-	**-**
Transfers to Stage 2	(84)	477	(393)	**-**
Transfers to Stage 3	(69)	(532)	601	**-**
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations	63	317	762	**1 142**
Unwind of discount (recognised in interest income)	-	-	425	**425**
Amounts written off	-	-	(10)	**(10)**
Provision for loans sold during the period	-	-	(521)	**(521)**
ECL as at 31 March 2018	**2 957**	**1 015**	**29 714**	**33 686**

5 Loans and Advances to Customers (Continued)

A reconciliation of the allowance for impairment of loans to customers by class during the three months ended 31 March 2017 is as follows:

Unaudited) *In millions of Russian Roubles*	Loans to corporates	Loans to individuals	Total
At 1 January 2017	**176 202**	**13 750**	**189 952**
Net provision for loan impairment during the period	10 510	1 861	**12 371**
Provision for loans sold during the period	(7 513)	(963)	**(8 476)**
Loans and advances to customers written off during the period as uncollectible	(2 587)	(6)	**(2 593)**
Recovery of loans previously written off sold during the period	308	-	**308**
Recovery of loans previously written off	345	-	**345**
At 31 March 2017	**177 265**	**14 642**	**191 907**

No provision for “Lending for food interventions” and “Subfederal bonds” was recorded as at 31 December 2017.

Refer to Note 18 for the disclosure of fair value of each class of loans and advances to customers and fair value hierarchy for loans and advances to customers. The information on related party transactions is disclosed in Note 19.

Modified and restructured loans. The Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been significantly renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be purchased or originated credit impaired.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

The table below includes Stage 2 and 3 assets that were modified during the period, with the related modification loss suffered by the Group.

(Unaudited) *In millions of Russian Roubles*	31 March 2018
Loans modified during the period	
Amortised cost before modification	364
Net modification loss	(71)
Loans modified since initial recognition	
Gross carrying amount at 1 January 2018 of loans for which loss allowance has changed to 12-month measurement during the period	1 567

6 Due to Other Banks

In millions of Russian Roubles	**31 March 2018 (unaudited)**	**31 December 2017**
Correspondent accounts and overnight placements of other banks	7 074	1 150
Borrowings from other banks with term to maturity:		
- less than 30 days	8 557	9 622
- from 31 to 180 days	115	738
- from 181 days to 1 year	201	81
- from 1 year to 3 years	227	444
- more than 3 years	19 635	19 248
Borrowings from the Bank of Russia with term to maturity:		
- less than 30 days	40	150
- from 31 to 180 days	6 176	1 689
- from 181 days to 1 year	5 885	8 601
- from 1 year to 3 years	8 876	11 034
Total due to other banks	**56 786**	**52 757**

Refer to Note 18 for the disclosure of the fair value and fair value hierarchy for due to other banks. The information on related party transactions is disclosed in Note 19.

7 Customer Accounts

In millions of Russian Roubles	**31 March 2018 (unaudited)**	**31 December 2017**
State and public organisations		
- Current/settlement accounts	21 417	24 243
- Term deposits	560 292	532 264
Other legal entities		
- Current/settlement accounts	148 932	144 487
- Term deposits	591 083	644 962
Individuals		
- Current/demand accounts	75 873	73 414
- Term deposits	813 910	784 207
Total customer accounts	**2 211 507**	**2 203 577**

State and public organisations exclude state-controlled joint stock companies.

7 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

In millions of Russian Roubles	31 March 2018 (unaudited) Amount	%	31 December 2017 Amount	%
Individuals	889 783	40	857 621	39
State and public organisations	581 709	26	556 507	25
Manufacturing	242 298	11	206 930	9
Trading	90 005	4	81 587	4
Agriculture	82 844	4	70 577	3
Financial services and pension funds	80 385	4	146 062	7
Construction	73 831	3	78 444	4
Insurance	38 487	2	41 040	2
Real estate	26 983	1	26 730	1
Transport	15 130	1	20 102	1
Leasing	9 015	-	8 706	-
Communication	515	-	3 161	-
Other	80 522	4	106 110	5
Total customer accounts	**2 211 507**	**100**	**2 203 577**	**100**

Refer to Note 18 for the disclosure of the fair value and fair value hierarchy for customer accounts. The information on related party transactions is disclosed in Note 19.

8 Bonds Issued

In millions of Russian Roubles	31 March 2018 (unaudited)	31 December 2017
Bonds issued on domestic market	150 525	130 742
Eurobonds issued	103 080	113 819
Total bonds issued	**253 605**	**244 561**

As at 31 March 2018, bonds issued consist of US Dollars denominated Eurobonds issued by the Group through its structured entity RSHB Capital S.A. as well as Russian Roubles denominated bonds issued on domestic market (31 December 2017: bonds issued consist of US Dollars and Russian Roubles denominated Eurobonds issued by the Group through its structured entity RSHB Capital S.A. as well as Russian Roubles denominated bonds issued on domestic market).

In February 2018, the Group redeemed at the maturity date bonds denominated in Russian Roubles issued on the domestic market with a total nominal value of RR 5 000 million.

In February 2018, the Group repaid at the maturity date Eurobonds (loan participation notes) (placed at par) denominated in Russian Roubles in the amount of RR 8 500 million, issued in February 2013.

In March 2018, the Group issued on the domestic market RR 25 000 million bonds (placed at par) maturing in March 2022 with semi-annual payments of coupon at 7.4% p.a.

During three months ended 31 March 2018, the Group repurchased bonds denominated in RR issued on the domestic market in the amount of RR 3 073 million at the put option date.

Refer to Note 18 for the disclosure of the fair value and fair value hierarchy for bonds issued. Refer to Note 20 for information on redemptions after the end of the reporting period.

9 Perpetual Bonds

As at 31 March 2018 and 31 December 2017, the Group's perpetual bonds equal to RR 15 000 million.

In January 2018, the Group paid the amount due under perpetual bonds in the total amount of RR 723 million including coupon accrued in 2017 in the amount of RR 54 million for the coupon period ended in January 2018 (in January 2017, the Group paid the amount due under perpetual bonds in the total amount of RR 723 million including coupon accrued in 2016 in the amount of RR 58 million for the coupon period ended in January 2017).

As at 31 March 2018, the Group accrued amounts due under perpetual bonds in the amount of RR 347 million (as at 31 March 2017, the Group accrued amounts due under perpetual bonds in the amount of RR 345 million).

10 Interest Income and Expense

(Unaudited) *In millions of Russian Roubles*	**For the three months ended 31 March** **2018**	**2017**
Interest income on financial instruments carried at fair value through profit or loss		
Loans to customers at fair value through profit or loss	476	-
Trading securities	300	703
Financial instruments at fair value through profit or loss	33	50
Total interest income on financial instruments carried at fair value through profit or loss	**809**	**753**
Interest income on other financial instruments		
Loans and advances to legal entities	33 119	35 459
Loans and advances to individuals	12 363	11 708
Investment securities at fair value through other comprehensive income including pledged under repurchase agreement	5 892	5 148
Cash equivalents	5 057	4 380
Investment securities at amortised cost including pledged under repurchase agreements (2017: investment securities held to maturity including pledged under repurchase agreements)	1 195	256
Due from other banks	381	3 108
Total interest income on other financial instruments	**58 007**	**60 059**
Total interest income	**58 816**	**60 812**
Interest expense		
Term deposits of legal entities	(18 110)	(21 867)
Term deposits of individuals	(13 292)	(10 889)
Bonds issued	(5 734)	(8 498)
Subordinated debts	(1 798)	(2 343)
Current/settlement accounts	(993)	(728)
Promissory notes issued	(598)	(694)
Term deposits of other banks	(500)	(416)
Term deposits of the Bank of Russia	(344)	(547)
Total interest expense	**(41 369)**	**(45 982)**
Net interest income	**17 447**	**14 830**

The information on related party transactions is disclosed in Note 19.

11 Credit Loss Expense

The table below shows the ECL charges on financial instruments recorded in the income statement for the three months ended 31 March 2018:

(Unaudited) *In millions of Russian Roubles*	Note	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents		(21)	-	-	**(21)**
Due from other banks		(2)	-	1	**(1)**
Loans to customers at amortised cost	5	4 017	11 689	(5 824)	**9 882**
Debt securities measured at amortised cost		(38)	9	-	**(29)**
Debt securities measured at FVOCI		(42)	6	53	**17**
Other financial assets		-	-	263	**263**
Credit related commitments		485	1	18	**504**
Total credit loss expense		**4 399**	**11 705**	**(5 489)**	**10 615**

12 Fee and Commission Income and Expense

(Unaudited)	**For the three months ended 31 March**	
In millions of Russian Roubles	**2018**	**2017**
Fee and commission income		
Commission on cash and settlements transactions	2 372	2 179
Fees for sale of insurance contracts	1 364	1 003
Commission on banking cards	700	210
Commission on guarantees issued	558	661
Commission received from the Deposit Insurance Agency	110	-
Fees for currency control	56	49
Other	474	756
Total fee and commission income	**5 634**	**4 858**
Fee and commission expense		
Commission on settlement transactions	(531)	(206)
Commission on cash collection	(90)	(118)
Other	(334)	(116)
Total fee and commission expense	**(955)**	**(440)**
Net fee and commission income	**4 679**	**4 418**

13 Gains less Losses from Non-banking Activities

(Unaudited)	**For the three months ended 31 March**	
In millions of Russian Roubles	**2018**	**2017**
Sales of goods	870	1 674
Cost of goods sold	(962)	(1 628)
Recovery of provision/(provision) for impairment for trade receivables, prepayments and other financial assets	215	(41)
Net income from insurance operations	159	713
Other non-banking income	934	464
Other non-banking expenses	(344)	(427)
Total gains less losses from non-banking activities	**872**	**755**

Sales of goods mainly represent sales of grain, sugar, meat and milk products, animal feedstuff and other non-foods agricultures.

13 Gains less Losses from Non-banking Activities (Continued)

Net income from insurance operations is as follows:

(Unaudited) *In millions of Russian Roubles*	**For the three months ended 31 March** **2018**	**2017**
Insurance premiums		
Premium earned	1 233	873
Reinsurers share in premiums earned	(382)	(212)
Net insurance premiums earned	**851**	**661**
Insurance benefits and claims		
Net claims incurred during the period	(893)	(102)
Acquisition costs	(150)	(109)
Reinsurers share in claims incurred during the period	351	263
Net insurance benefits and claims	**(692)**	**52**
Net income from insurance operations	**159**	**713**

14 Significant Risk Concentrations

As at 31 March 2018, correspondent accounts and deposits with other banks with original maturities less than one month within cash and cash equivalents included no balances with other banks individually above 10% of the Group's equity (31 December 2017: correspondent accounts and deposits with other banks with original maturities less than one month within cash and cash equivalents included balances with one Russian banking group with rating of the parent bank at Ba2 (Moody's), individually above 10% of the Group's equity, in the amount of RR 35 835 million, or 6% of total cash and cash equivalents). As at 31 March 2018, correspondent accounts and deposits with other banks with original maturities less than one month within cash and cash equivalents included balances with two OECD banking groups with rating of the parent bank not lower than BBB+ (S&P), in aggregate above 10% of the Group's equity, in the amount of RR 20 004 million, or 5% of total cash and cash equivalents.

As at 31 March 2018, cash and cash equivalents included the balances with the Bank of Russia in the total amount of RR 238 587 million, or 57% of total cash and cash equivalents (31 December 2017: RR 382 304 million, or 65% of total cash and cash equivalents).

As at 31 March 2018 and 31 December 2017, due from other banks included no balances with other banks individually above 10% of the Group's equity. As at 31 March 2018, due from other banks included the balances with one Russian banking group with rating of the parent bank at B2 (Moody`s) and one non-OECD banking group with rating of the parent bank at B (S&P) in aggregate above 10% of the Group's equity, in the amount of RR 13 645 million, or 39% of total due from other banks (31 December 2017: balances with one Russian banking group with rating of the parent bank at B2 (Moody`s) and three non-OECD banking groups with rating of the parent bank not lower than B (S&P) in aggregate above 10% of the Group's equity, in the amount of RR 20 645 million, or 80% of total due from other banks).

As at 31 March 2018, due to other banks included balances with the Bank of Russia above 10% of the Group's equity in the amount of RR 20 977 million, or 37% of total due to other banks (31 December 2017: due to other banks included balances with the Bank of Russia above 10% of the Group's equity in the amount of RR 21 474 million, or 41% of total due to other banks).

As at 31 March 2018, due to other banks included the balances with one OECD banking group with rating of the parent bank at A (S&P), individually above 10% of the Group's equity, in the amount of RR 10 799 million, or 19% of total due to other banks (31 December 2017: due to other banks included no balances with other banks individually above 10% of the Group's equity). As at 31 December 2017, due to other banks included the balances with one OECD banking group with rating of the parent bank at A- (S&P) and two Russian banking groups with rating of the parent bank not lower than Ba2 (Moody's) in aggregate above 10% of the Group's equity, in the amount of RR 20 158 million, or 38% of total due to other banks.

As at 31 March 2018, customer accounts included balances with fifteen customers each above 10% of the Group's equity (31 December 2017: balances with nine customers each above 10% of the Group's equity). The aggregate balance of these customers was RR 757 637 million, or 34% of total customer accounts (31 December 2017: RR 698 763 million, or 32% of total customer accounts).

15 Segment Analysis

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses whose operating results are regularly reviewed by the Group's Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Management Board has been identified as the CODM.

The Management Board of the Bank performs geographic analysis of the Bank's operations and therefore the Bank's regional branches have been designated as operating segments.

Taking into account the administrative-territorial division of Russia, federal districts of the Russian Federation have been designated as reportable segments.

The Management Board of the Bank assesses efficiency of operating segments based on a financial performance measure prepared from statutory accounting data.

The accounting policy of the operating segments is based on Russian Accounting Rules (RAR) and thus significantly differs from policies described in the summary of significant accounting policies in the Group's last annual consolidated financial statements.

15 Segment Analysis (Continued)

Segment reporting of the Group's revenue and profit/(loss) for the three months ended 31 March 2018 and for the three months ended 31 March 2017 and segment reporting of the Group's assets at 31 March 2018 and 31 December 2017 are as follows:

In millions of Russian Roubles	Head office	Central federal district	Far-Eastern federal district	Volga federal district	North-West federal district	North-Caucasian federal district	Siberian federal district	Ural federal district	Southern federal district	Total
For the three months ended 31 March 2018 (unaudited)										
Revenue from external customers	**15 838**	**16 240**	**1 824**	**9 625**	**4 135**	**2 363**	**3 953**	**1 935**	**7 364**	**63 277**
- Interest income from loans and advances to customers, due from other banks and other placed funds	15 314	14 763	1 580	8 573	3 719	1 997	3 354	1 758	6 813	**57 871**
- Net fee and commission income from credit related operations	524	1 477	244	1 052	416	366	599	177	551	**5 406**
Gains less losses/(losses net of gains) arising from securities, derivative financial instruments and foreign currency	4 037	(314)	(37)	67	(147)	43	142	111	426	**4 328**
Interest expenses from due to other banks, customer accounts and bonds issued	(22 029)	(6 461)	(1 329)	(4 153)	(2 464)	(724)	(2 276)	(1 176)	(1 436)	**(42 048)**
(Provision)/recovery of provision for impairment*	(229)	(2 440)	155	(936)	1 226	(162)	(37)	11	1 648	**(764)**
Administrative and maintenance expense	(8 724)	(517)	(148)	(436)	(173)	(184)	(309)	(100)	(178)	**(10 769)**
- Including depreciation charge	(302)	(63)	(15)	(54)	(23)	(29)	(45)	(11)	(22)	**(564)**
Other expenses less other income*	(993)	(5 716)	(297)	(805)	(1 119)	(1 813)	(301)	(139)	(1 927)	**(13 110)**
Current income tax expense	(380)	-	-	-	-	-	-	-	-	**(380)**
(Loss)/profit of reportable segments	**(12 480)**	**792**	**168**	**3 362**	**1 458**	**(477)**	**1 172**	**642**	**5 897**	**534**
Intersegment income/(expense)**	**15 710**	**(880)**	**(85)**	**(4 191)**	**(915)**	**(1 710)**	**(1 587)**	**(592)**	**(5 750)**	**-**

* Other expenses less other income include losses from disposal of loans under cession agreements that is calculated under RAR as consideration received less nominal amount of sold loans, whereas provision for loan impairment under RAR at the date of sale of loans is recorded as provision recovery.

** Intersegment income and expense are used by CODM for information purpose only and not for identification of profit or loss of the operating segments.

15 Segment Analysis (Continued)

In millions of Russian Roubles	Head office	Central federal district	Far-Eastern federal district	Volga federal district	North-West federal district	North-Caucasian federal district	Siberian federal district	Ural federal district	Southern federal district	Total
For the three months ended 31 March 2017 (unaudited)										
Revenue from external customers	**14 630**	**18 012**	**1 768**	**11 074**	**4 126**	**2 684**	**4 604**	**1 958**	**8 086**	**66 942**
- Interest income from loans and advances to customers, due from other banks and other placed funds	13 876	16 587	1 533	10 112	3 698	2 320	4 017	1 800	7 568	**61 511**
- Net fee and commission income from credit related operations	754	1 425	235	962	428	364	587	158	518	**5 431**
Gains less losses/(losses net of gains) arising from securities, derivative financial instruments and foreign currency	11 736	(6 259)	234	497	(411)	191	215	(1 717)	(1 361)	**3 125**
Interest expenses from due to other banks, customer accounts and bonds issued	(29 468)	(5 404)	(1 245)	(3 693)	(2 246)	(728)	(1 763)	(877)	(1 391)	**(46 815)**
Recovery of provision/(provision) for impairment*	(2 894)	1 763	418	(57)	681	(1 884)	408	(163)	3 269	**1 541**
Administrative and maintenance expense	(7 833)	(497)	(142)	(416)	(169)	(175)	(294)	(94)	(192)	**(9 812)**
- Including depreciation charge	(290)	(71)	(16)	(54)	(25)	(31)	(47)	(12)	(23)	**(569)**
Other expenses less other income*	(734)	(3 523)	(575)	(429)	(2 571)	(741)	(1 624)	(1)	(3 829)	**(14 027)**
Current income tax expense	(387)	-	-	-	-	-	-	-	-	**(387)**
(Loss)/profit of reportable segments	**(14 950)**	**4 092**	**458**	**6 976**	**(590)**	**(653)**	**1 546**	**(894)**	**4 582**	**567**
Intersegment income/(expense)**	**19 555**	**(4 370)**	**(349)**	**(5 858)**	**(908)**	**(2 128)**	**(2 529)**	**1 106**	**(4 519)**	**-**
Total assets										
31 March 2018 (unaudited)	1 978 151	826 424	115 921	434 547	213 938	122 852	200 364	119 963	309 620	**4 321 780**
31 December 2017	2 511 037	1 004 039	126 332	475 689	249 471	167 927	248 668	133 765	334 919	**5 251 847**

* Other expenses less other income include losses from disposal of loans under cession agreements that is calculated under RAR as consideration received less nominal amount of sold loans, whereas provision for loan impairment under RAR at the date of sale of loans is recorded as provision recovery.

** Intersegment income and expense are used by CODM for information purpose only and not for identification of profit or loss of the operating segments.

15 Segment Analysis (Continued)

Reconciliation of profit/(loss) of the reportable segments results is as follows:

(Unaudited) *In millions of Russian Roubles*	**For the three months ended 31 March** **2018**	**2017**
Total profit of reportable segments (after tax)	**534**	**567**
Adjustments for impairment (ECL)	2 531	1 672
Results of non-reportable segments, including the effect of consolidation*	(467)	(1 644)
Accounting for financial instruments at fair value	(4 261)	(5 171)
Adjustment of deferred tax	(642)	753
Gains less losses from revaluation of other financial instruments at fair value through profit or loss	34	56
Adjustment of accrued staff costs	632	193
Adjustments of financial assets and liabilities carried at amortised cost	(2 414)	1 384
Other	4 929	(1 719)
The Group's profit/(loss) under IFRS (after tax)	**876**	**(3 909)**

* Non-reportable segments are represented by subsidiaries of the Group.

Adjustments of provision for impairment are related to the difference between the methodology applied to calculate provisions for loan impairment under RAR used for preparation of management reporting and the methodology used for IFRS reporting. The provision under RAR is calculated based mainly on formal criteria depending on the financial position of the borrower, quality of debt service and collateral, whereas the provision under IFRS requirement is calculated based on expected loss model (before 2018 — incurred loss model).

Adjustments of derivative financial instruments to their fair value arise from the difference in the accounting treatment of currency swaps under RAR (which are the basis for management reporting) and IFRS reporting. Under RAR foreign exchange swaps are recognized as back-to-back deposits, whereas in IFRS financial statements such transactions are recognized at fair value. Refer to Note 17. Providing reconciliation, accounting for deals described above under RAR assumes also adjustments related to interest income/expense and total assets of reportable segments.

Adjustments to financial assets and liabilities carried at amortised cost resulted from accruals of interest income/expenses using effective interest rate method in IFRS, whereas there is nominal rate accrual approach used under RAR.

Balances of intercompany settlements related to regional branches of the Bank are represented under RAR as assets and liabilities, while in IFRS such balances are shown on a net basis.

Adjustments of deferred income tax expense and accrued staff costs arise from the timing difference in recognition of certain expenses under RAR compared to IFRS and regulatory requirements of tax-filing date.

All other adjustments also result from the differences between RAR (used as the basis for management reporting) and IFRS.

16 Contingencies and Commitments

Legal proceedings. From time to time in the normal course of business, claims against the Group are received. As at 31 March 2018, based on its own estimates and both internal and external professional advice the Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no material provision for cover of such losses has been made in these interim condensed consolidated financial statements (31 December 2017: Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no material provision for cover of such losses has been made in annual consolidated financial statements).

16 Contingencies and Commitments (Continued)

Tax contingencies. Certain provisions of Russian tax, currency and customs legislation as currently in effect are vaguely drafted which may often result in their different interpretation (which, inter alia, may apply retrospectively), inconsistent and selective application and frequent and unpredictable changes. Interpretation of this legislation by the Group in relation to the operations and activities of the Group may be challenged by the respective state authorities. The tax authorities may be taking a more assertive position in their interpretation of the applicable legislation, in carrying out tax audits and in making tax assessments. Consequently, the tax authorities may challenge transactions and tax accounting methods that have not been challenged in the past.

Fiscal periods remain open and subject to review by the tax authorities in course of the on-site tax audits for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

Russian transfer pricing legislation allows the Russian tax authority under certain circumstances to apply transfer pricing adjustments and impose additional profits tax and VAT liabilities in respect of all "controlled" transactions if the transaction price differs from the market level of prices determined for tax purposes and such deviation resulted in the underpayment of the tax to the revenue. The list of "controlled" transactions includes transactions performed with related parties (subject to certain conditions) and certain types of cross-border transactions. Special transfer pricing rules apply to transactions with securities, derivatives and interest.

During three months ended 31 March 2018, the Group determined its tax liabilities arising from the "controlled" transactions using actual transaction prices.

Due to the absence of the stable practice of the application of the Russian transfer pricing legislation, the Russian tax authorities may challenge the level of prices applied by the Russian companies of the Group for tax purposes under the "controlled" transactions and accrue additional tax liabilities in relation to such transactions, unless the Group is able to demonstrate that the respective transactions are arms' length for tax purposes.

As at 31 March 2018, the Management of the Group believes that its interpretation of the applicable legislation is reasonable and will be sustained.

Capital expenditure commitments. As at 31 March 2018, the Group has contractual capital expenditure commitments of RR1 406 million (31 December 2017: RR 710 million).

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

In millions of Russian Roubles	**31 March 2018 (unaudited)**	**31 December 2017**
Not later than 1 year	2 726	3 299
Later than 1 year and not later than 5 years	3 820	3 869
Later than 5 years	1 573	1 638
Total operating lease commitments	**8 119**	**8 806**

Compliance with covenants. The Group is subject to certain covenants primarily relating to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including an increase of the borrowing costs and announcement of the default. The Group's Management believes that the Group is in compliance with the covenants.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Financial guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

16 Contingencies and Commitments (Continued)

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. The risk under performance guarantee contracts is the possibility that the insured event (i.e. the failure to perform the contractual obligation by another party) occurs.

Outstanding credit related commitments and performance guarantees are as follows:

In millions of Russian Roubles	**31 March 2018 (unaudited)**	**31 December 2017**
Undrawn credit lines	61 345	56 114
Financial guarantees	49 393	48 207
Letters of credit	7 383	6 414
Less: provisions for ECL	(1 128)	(552)
Total credit related commitments	**116 993**	**110 183**
Performance guarantees	126 092	139 763
Total credit related commitments and performance guarantees	**243 085**	**249 946**

An analysis of changes in the ECLs during the three months ended 31 March 2018 are, as follows:

(Unaudited) *In millions of Russian Roubles*	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECLs as at 1 January 2018	**624**	**-**	**-**	**624**
Transfers to Stage 1	-	-	-	**-**
Transfers to Stage 2	(26)	26	-	**-**
Transfers to Stage 3	-	-	-	**-**
Impact on period end ECL of exposures transferred between stages during the period	511	(25)	18	**504**
ECLs as at 31 March 2018	**1 109**	**1**	**18**	**1 128**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Credit related commitments and performance guarantees are denominated in currencies as follows:

In millions of Russian Roubles	**31 March 2018 (unaudited)**	**31 December 2017**
Russian Roubles	184 800	193 935
Euros	52 710	50 305
US Dollars	5 575	5 706
Total credit related commitments	**243 085**	**249 946**

16 Contingencies and Commitments (Continued)

Assets pledged and restricted. The Group had the following assets pledged and restricted:

In millions of Russian Roubles	**31 March 2018 (unaudited)**	**31 December 2017**
Assets pledged under loan agreements with banks (including the Bank of Russia)	20 675	20 799
Security deposit under the lease agreement	202	202

As at 31 March 2018, mandatory cash balances with the Bank of Russia of RR 19 903 million (31 December 2017: RR 19 112 million) represent mandatory reserve deposits which are not available to finance the Group's day to day operations.

As at 31 March 2018 and 31 December 2017, assets pledged under loan agreements with banks (including the Bank of Russia) mainly include loans and advances to customers pledged to the Bank of Russia under loan agreements in accordance with the Bank of Russia Act # 312-P *On the Procedures of Granting Loans Secured by Assets or Guarantees by the Bank of Russia to Credit Organisations* dated 12 November 2007.

17 Derivative Financial Instruments

Foreign exchange derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties. As a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms, derivative financial instruments are recognized as assets (in case of positive fair value) or liabilities (in case of negative fair value).

As at 31 March 2018, in the aggregate amount of foreign exchange swaps with original settlement dates of more than 30 working days prevails swaps structured as loans issued by the Group in US Dollars and Japanese yens (31 December 2017: in US Dollars and Japanese yens) to three large OECD banks and one Russian banking group with maturities from May 2018 to May 2023, and deposits in Russian Roubles received from the same counterparties with the same maturities ("back-to-back loans"). These transactions are aimed at economically hedging the currency exposure of the Group.

Part of these agreements contain special procedures for counterparties upon the occurrence of a credit event or an event of default (for example bankruptcy, failure to pay, obligation acceleration, repudiation/moratorium or restructuring external unsubordinated public liabilities, providing incorrect or misleading representation). The subjects of such events are the Group, and in some instances, the counterparty of the agreement, and/or the Russian Federation. Some of the agreements provide that no further mutual payment obligation between the parties is due, if a credit event or default event happens. Some agreements on the exchange of resources provide termination of liabilities with a mark-to-market payment in the case of a relevant event (e.g., a default event).

As at 31 March 2018, international credit ratings of these counterparties were not less than BBB- (S&P) (31 December 2017: not less than BB+ (S&P)).

Interest rate swaps entered into by the Group has underlying assets of RR and USD floating interest rates and are entered into with the aim of interest rate risk management.

17 Derivative Financial Instruments (Continued)

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions as at 31 March 2018 and covers the contracts with settlement dates after the respective end of the reporting period:

(Unaudited) *In millions of Russian Roubles*	**Principal or agreed amount at fair value of assets receivable**	**Principal or agreed amount at fair value of assets payable**	**Positive fair value**	**Negative fair value**
Forwards and swaps				
- Currency	271 914	(228 473)	47 373	(3 932)
- Precious metals	1 089	(1 076)	15	(2)
- Interest rate	204	(195)	9	-
Options	9 439	(9 448)	125	(134)
Contracts with securities	4 448	(4 453)	-	(5)
Futures				
- Commodity	56	(52)	4	-
Total derivative financial instruments	**287 150**	**(243 697)**	**47 526**	**(4 073)**

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions as at 31 December 2017 and covers the contracts with settlement dates after the respective end of the reporting period:

In millions of Russian Roubles	**Principal or agreed amount at fair value of assets receivable**	**Principal or agreed amount at fair value of assets payable**	**Positive fair value**	**Negative fair value**
Forwards and swaps				
- Currency	253 142	(206 377)	50 038	(3 273)
- Precious metals	147	(147)	-	-
Options	1 870	(1 883)	76	(90)
Contracts with securities	107	(107)	-	-
Total derivative financial instruments	**255 266**	**(208 514)**	**50 114**	**(3 363)**

As at 31 March 2018, the Group had two foreign exchange swap with one foreign bank with rating at A+ (S&P) and one Russian banking group with rating of the parent bank at BBB- (S&P) with fair value individually above 10% of the Group’s equity (31 December 2017: no foreign exchange swaps with fair value individually above 10% of the Group’s equity). As at 31 March 2018, receivables and payables on settlement of these foreign exchange swaps amounted to RR 58 631 million and RR 30 182 million, respectively, or 64% of total receivables and 64% of total payables on settlement of foreign exchange swaps.

Refer to Note 18 for the disclosure of fair value hierarchy for derivative financial instruments. The information on related party transactions is disclosed in Note 19.

18 Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Trading securities, investment securities at fair value through other comprehensive income, and related trading and investment securities pledged under repurchase agreements are carried on the interim consolidated statement of financial position at their fair value based on quoted market prices and valuation techniques with all material inputs observable.

Financial instruments at fair value through profit or loss and derivative financial instruments are carried on the interim consolidated statement of financial position at their fair value based on valuation technique with inputs observable in markets. Derivative financial instruments are measured at fair value as assets when fair value is positive and as liabilities when fair value is negative. The Group uses discounted cash flow techniques with observable market data inputs as offshore and onshore yield curves, as well as market data, reflecting the distribution of the probability of default over time.

Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Loans and receivables. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate bearing placements is based on discounted cash flows using current market interest rates for instruments with similar credit risk and similar maturity.

Investment securities carried at amortised cost. The fair value for investment securities carried at amortised cost is based on quoted market prices and valuation techniques with all material inputs observable.

Liabilities carried at amortised cost. The fair value of bonds issued is based on market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and similar remaining maturity.

18 Fair Value of Financial Instruments (Continued)

(a) Fair value of financial instruments carried at amortised cost and at fair value

	31 March 2018 (unaudited)		31 December 2017	
In millions of Russian Roubles	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets carried at amortised cost				
Cash and cash equivalents	421 975	421 975	586 437	586 437
Mandatory cash balances with the Bank of Russia	19 903	19 903	19 112	19 112
Due from other banks	35 085	35 313	25 937	26 287
Loans and advances to customers				
- Loans to corporates	1 382 649	1 402 817	1 379 914	1 392 895
- Lending for food interventions	36 350	36 350	36 458	36 458
- Subfederal bonds	-	-	3 279	3 305
- Loans to individuals	354 722	376 528	346 109	369 387
Investment securities				
- Corporate bonds	42 534	43 072	42 553	42 585
- Municipal and subfederal bonds	23 188	23 725	20 136	20 265
- Federal Loan bonds (OFZ)	1 911	1 911	1 996	1 928
Other financial assets	7 146	7 146	11 733	11 733
Total financial assets carried at amortised cost	**2 325 463**	**2 368 740**	**2 473 664**	**2 510 392**
Financial assets carried at fair value	430 866	430 866	343 565	343 565
Total financial assets	**2 756 329**	**2 799 606**	**2 817 229**	**2 853 957**
Financial liabilities carried at amortised cost				
Due to other banks				
- Term borrowings from other banks	28 735	30 312	30 133	32 175
- Term borrowings from the Bank of Russia	20 977	20 785	21 474	21 175
- Correspondent accounts and overnight placements of other banks	7 074	7 074	1 150	1 150
Customer accounts				
- State and public organisations	581 709	582 026	556 507	556 845
- Other legal entities	740 015	740 753	789 449	790 524
- Individuals	889 783	893 904	857 621	859 212
Promissory notes issued	39 624	39 624	36 946	36 946
Bonds issued				
- Bonds issued on domestic market	150 525	154 866	130 742	135 055
- Eurobonds issued	103 080	103 896	113 819	115 652
Other financial liabilities	6 492	6 492	9 489	9 489
Total financial liabilities carried at amortised cost before subordinated debts	**2 568 014**	**2 579 732**	**2 547 330**	**2 558 223**
Subordinated debts	133 577	143 793	133 444	142 245
Total financial liabilities carried at amortised cost	**2 701 591**	**2 723 525**	**2 680 774**	**2 700 468**
Financial liabilities carried at fair value	4 073	4 073	3 363	3 363
Total financial liabilities	**2 705 664**	**2 727 598**	**2 684 137**	**2 703 831**

18 Fair Value of Financial Instruments (Continued)

(b) Analysis by fair value hierarchy of financial instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows:

(i) Level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities;

(ii) Level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and

(iii) Level three measurements are valuations not based on observable market data (that is, unobservable inputs).

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Fair value hierarchy. For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Analysis of financial and non-financial instruments as at 31 March 2018 is as follows:

(Unaudited) *In millions of Russian Roubles*	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique with non-observable inputs (Level 3)**	**Total**
Assets measured at fair value				
Trading securities	16 293	-	-	**16 293**
Financial instruments at fair value through profit or loss	-	2 169	-	**2 169**
Investment securities at fair value through other comprehensive income	306 335	40 344	-	**346 679**
Derivative financial instruments	-	47 526	-	**47 526**
Loans to customers at fair value through profit or loss	-	-	18 199	**18 199**
Office premises	-	-	27 178	**27 178**
Assets for which fair values are disclosed				
Cash and cash equivalents	-	421 975	-	**421 975**
Mandatory cash balances with the Bank of Russia	-	-	19 903	**19 903**
Due from other banks	-	35 313	-	**35 313**
Loans and advances to customers	-	-	1 815 695	**1 815 695**
Investment securities	60 812	7 896	-	**68 708**
Other financial assets	-	-	7 146	**7 146**
Total financial and non-financial assets	**383 440**	**555 223**	**1 888 121**	**2 826 784**
Liabilities measured at fair value				
Derivative financial instruments	-	4 073	-	**4 073**
Liabilities for which fair values are disclosed				
Due to other banks	-	58 171	-	**58 171**
Customer accounts	-	-	2 216 683	**2 216 683**
Promissory notes issued	-	-	39 624	**39 624**
Bonds issued				
- Bonds issued on domestic market	142 328	12 538	-	**154 866**
- Eurobonds issued	103 896	-	-	**103 896**
Other financial liabilities	-	-	6 492	**6 492**
Total financial liabilities before subordinated debts	**246 224**	**74 782**	**2 262 799**	**2 583 805**
Subordinated debts	31 575	112 218	-	**143 793**
Total financial liabilities	**277 799**	**187 000**	**2 262 799**	**2 727 598**

18 Fair Value of Financial Instruments (Continued)

Analysis of financial and non-financial instruments as at 31 December 2017 is as follows:

In millions of Russian Roubles	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with non-observable inputs (Level 3)	Total
Assets measured at fair value				
Trading securities	17 507	-	-	**17 507**
Financial instruments designated at fair value through profit or loss	-	2 091	-	**2 091**
Investment securities available for sale	232 934	40 919	-	**273 853**
Derivative financial instruments	-	50 114	-	**50 114**
Office premises	-	-	27 018	**27 018**
Assets for which fair values are disclosed				
Cash and cash equivalents	-	586 437	-	**586 437**
Mandatory cash balances with the Bank of Russia	-	-	19 112	**19 112**
Due from other banks	-	26 287	-	**26 287**
Loans and advances to customers	1 178	2 127	1 798 740	**1 802 045**
Investment securities held to maturity	57 443	7 335	-	**64 778**
Other financial assets carried at amortised cost	-	-	11 733	**11 733**
Total financial and non-financial assets	**309 062**	**715 310**	**1 856 603**	**2 880 975**
Liabilities measured at fair value				
Derivative financial instruments	-	3 363	-	**3 363**
Liabilities for which fair values are disclosed				
Due to other banks	-	54 500	-	**54 500**
Customer accounts	-	-	2 206 581	**2 206 581**
Promissory notes issued	-	-	36 946	**36 946**
Bonds issued				
- Bonds issued on domestic market	122 574	12 481	-	**135 055**
- Eurobonds issued	115 652	-	-	**115 652**
Other financial liabilities	-	-	9 489	**9 489**
Total financial liabilities before subordinated debts	**238 226**	**70 344**	**2 253 016**	**2 561 586**
Subordinated debts	38 640	103 605	-	**142 245**
Total financial liabilities	**276 866**	**173 949**	**2 253 016**	**2 703 831**

There were no financial instruments carried at fair value based on a valuation technique with non-observable inputs (Level 3) as at 31 March 2018 (31 December 2017: none).

18 Fair Value of Financial Instruments (Continued)

The table below reflects transfers of financial instruments measured at fair value between Level 1 and Level 2 of the fair value hierarchy during three months ended 31 March 2018:

	Transfers between Level 1 and Level 2	
(Unaudited) *In millions of Russian Roubles*	**From Level 1 to Level 2**	**From Level 2 to Level 1**
Financial assets		
Investment securities at fair value through other comprehensive income	561	1 511
Total transfers of financial assets	**561**	**1 511**

The table below reflects transfers of financial instruments measured at fair value between Level 1 and Level 2 of the fair value hierarchy during three months ended 31 March 2017:

	Transfers between Level 1 and Level 2	
In millions of Russian Roubles	**From Level 1 to Level 2**	**From Level 2 to Level 1**
Financial assets		
Investment securities available for sale	1 035	1 616
Total transfers of financial assets	**1 035**	**1 616**

Financial instruments are transferred from Level 2 to Level 1 of the fair value hierarchy when they become traded in active markets and fair value can be determined based on quoted prices in active markets.

Financial instruments are transferred from Level 1 to Level 2 when they ceased to be traded in active markets. The liquidity on the market is not sufficient to use market prices for valuation and as a result fair value is determined using valuation techniques with all material inputs observable.

There were no other transfers between levels of the fair value hierarchy during three months ended 31 March 2018 and during the year ended 31 December 2017.

18 Fair Value of Financial Instruments (Continued)

The following table shows the quantitative information as at 31 March 2018 about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

Assets	Fair value, *in millions of Russian Roubles*	Valuation technique	Inputs used		
			Input	Min	Max
Office premises (based on valuation at 31 December 2015, fair value of new objects acquired in 2016, 2017 and 2018 equals to current value)	27 178	Comparative method	Trade discount	8.0%	20.0%

The following table shows the quantitative information as at 31 December 2017 about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

Assets	Fair value, *in millions of Russian Roubles*	Valuation technique	Inputs used		
			Input	Min	Max
Office premises (based on valuation at 31 December 2015, fair value of new objects acquired in 2016 and 2017 equals to current value)	27 018	Comparative method	Trade discount	8.0%	20.0%

19 Related Party Transactions

For the purposes of these interim condensed consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. The Bank's only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property, the Ministry of Finance of the Russian Federation and The State Corporation "Deposit Insurance Agency". Refer to Note 1.

In these interim condensed consolidated financial statements, significant balances and transactions with the state-controlled entities and parties that are related to such entities and balances and transactions with related parties represented by key management and their family members are disclosed.

19 Related Party Transactions (Continued)

The outstanding balances with related parties were as follows:

In millions of Russian Roubles	**31 March 2018 (unaudited)**	**31 December 2017**
Cash and cash equivalents		
Bank of Russia	238 587	382 304
Other banks	15 252	55 062
Loans and advances to customers		
Loans and advances to customers (before impairment)	225 326	179 008
Less: allowance for impairment	(8 635)	(5 631)
Derivative financial instruments — assets	11 413	12 095
Securities		
Securities issued by Russian Federation	143 413	148 273
Securities of entities and banks	194 278	138 479
Due from other banks	12 460	11 496
Other assets		
State Corporation Deposit Insurance Agency	996	4 499
Accrued subsidies under the government programs to subsidize lending	-	3
Customer accounts		
Entities	868 020	827 286
Key management and their family members	1 908	2 050
Due to other banks		
Bank of Russia	20 977	21 474
Other banks	16 258	10 036
Derivative financial instruments — liabilities	286	48
Subordinated debts	67 339	66 939
Credit related commitments		
Undrawn credit lines	5 343	4 169
Performance guarantees	23 852	9 086
Financial guarantees received	28 585	29 117

19 Related Party Transactions (Continued)

The income and expense items with related parties were as follows:

(Unaudited) *In millions of Russian Roubles*	For the three months ended 31 March 2018	2017
Interest income on cash and cash equivalents		
Bank of Russia	4 511	3 420
Other banks	260	2 315
Interest income on due from other banks	38	417
Interest income on loans and advances to customers	3 126	3 488
Interest income on securities		
Securities issued by Russian Federation	3 549	3 690
Securities of entities and banks	2 849	763
Gains less losses from securities		
Securities issued by Russian Federation	1 288	269
Securities of entities and banks	40	95
Fee and commission income		
Commission received from the Deposit Insurance Agency	110	-
Losses net of gains from derivative financial instruments	(249)	(881)
Interest expense on customer accounts		
Entities	(12 447)	(12 776)
Key management and their family members	(18)	(25)
Interest expense on subordinated debts	(931)	(984)
Interest expense on due to other banks		
Bank of Russia	(344)	(547)
Other banks	(118)	(705)
Administrative and other operating expenses		
Payments to the Deposit Insurance Fund	(999)	(718)

During three months ended 31 March 2018, transactions with the shareholder included taxes paid and subsidies received under the government programs to subsidize lending.

Key management of the Group represents members of the Supervisory Board, the Management Board and Chief Accountant of the Bank. For the three months ended 31 March 2018 total remuneration of the key management amounted to RR 75 million (for the three months ended 31 March 2017: RR 77 million).

20 Events after the End of the Reporting Period

In April 2018, the Group paid the amount due under perpetual bonds in the total amount of RR 355 million.

In April 2018, the Group repurchased bonds denominated in RR issued on the domestic market in the amount of RR 18 957 million at the put option date.

In April 2018, the Group issued on the domestic market RR 15 000 million subordinated perpetual bonds (placed at par). Perpetual bonds have an unlimited term and are redeemable at the Group's option starting from April 2028 at their principal amount in the end date of each next duration 10-year-period. Coupon rate is fixed at 9.0% p.a. and will be reset every 10 years as 10-year OFZ yield increased by initial spread plus 100 b.p. Coupon payments are paid semi-annually and may be cancelled or deferred in accordance with the terms of the notes.

In May 2018, the Group repurchased bonds denominated in RR issued on the domestic market in the amount of RR 5 425 million at the put option date.

In May 2018, the Group repaid at the maturity date Eurobonds (loan participation notes) (placed at par) denominated in US Dollars in the nominal amount of US Dollars 901 million, equivalent to RR 55 356 million as at maturity date, issued in May 2008.

ООО «Эрнст энд Янг»
Прошито и пронумеровано 42 листа(ов)