Report on Review of Interim Financial Information

CentroCredit Bank

for the six months ended 30 June 2018

August 2018

Translation from original Russian version

Translation from original Russian version

Contents

Report on Review of Interim Financial Information

Translation from original Russian version

To the shareholders and Board of Directors of
CentroCredit Bank

Introduction

We have reviewed the accompanying interim financial statements of CentroCredit Bank, which comprise the interim statement of financial position as at 30 June 2018, the interim statement of profit or loss, the interim statement of comprehensive income, the interim statement of changes in equity and the interim statement of cash flows for the six months then ended and selected explanatory notes (the "interim financial information"). Management of CentroCredit Bank is responsible for the preparation and presentation of this interim financial information in accordance with International Financial Reporting Standard 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.

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*.

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Other matters

We have not reviewed the interim condensed financial statements as at 30 June 2017 and for the six months then ended.

MARIJA IGNATJEVA
Partner
Ernst & Young LLC

28 August 2018

Details of the entity

Name: CentroCredit Bank
Record made in the State Register of Legal Entities on 16 September 2002, State Registration Number 1027739198387.
Address: Russia 119017, Moscow, Pyatnitskaya ulitsa, 31/2, building 1.

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.

Translation from original Russian version

Interim statement of financial position

as at 30 June 2018

(thousands of Russian rubles)

	Notes	30 June 2018 (unaudited)	31 December 2017
Assets			
Cash and accounts with the CBR	3	2,372,673	2,611,594
Financial assets at fair value through profit or loss	4	19,822,103	19,211,976
Financial assets at fair value through profit or loss pledged under repurchase agreements	4	35,766,620	20,195,156
Amounts due from credit institutions	5	3,995,125	4,823,241
Loans to customers	6	17,794,077	15,035,606
Available-for-sale investments	7	–	245,676
Held-to-maturity investments	8	–	7,962,781
Property and equipment		63,996	74,775
Current income tax assets		172,771	183,324
Other assets		1,251,247	923,961
Total assets		**81,238,612**	**71,268,090**
Liabilities			
Amounts due to credit institutions	11	37,734,742	22,616,227
Amounts due to customers	12	11,196,235	13,856,685
Debt securities issued	13	1,483,236	4,677,121
Other provisions	15	1,517,514	968,643
Deferred income tax liabilities		292,036	566,766
Other liabilities		728,732	228,725
Total liabilities		**52,952,495**	**42,914,167**
Equity			
Share capital	14	6,946,140	6,946,140
Revaluation reserve for available-for-sale investments		–	(12,096)
Retained earnings		21,339,977	21,419,879
Total equity		**28,286,117**	**28,353,923**
Total equity and liabilities		**81,238,612**	**71,268,090**

Signed and authorized for release on behalf of the Management Board of the Bank

L.V. Zimina Chairman of the Management Board

O.Yu. Pavlova Chief Accountant – Head of the Accounting and Reporting Department

28 August 2018

Interim statement of profit or loss
for the six months ended 30 June 2018

(thousands of Russian rubles)

		For the six months ended 30 June (unaudited)	
	Notes	***2018***	***2017***
Interest income		2,509,723	1,885,033
Interest expense		(1,304,927)	(346,179)
Net interest income		**1,204,796**	**1,538,854**
Allowance for credit losses (2017: (allowance) for impairment of interest-earning assets)	10	(1,233,823)	(422,425)
Net interest (expense)/income after allowance for credit losses		**(29,027)**	**1,116,429**
Fee and commission income		253,774	213,178
Fee and commission expense		(32,134)	(24,795)
Net gains/(losses) from financial instruments at fair value through profit or loss		958,602	(791,289)
Net gains from available-for-sale investments		–	43,500
Net gains from precious metals		99,350	20,083
Net (losses) from foreign currencies:		(234,998)	(181,558)
- dealing		(2,848)	44,157
- translation differences		(232,150)	(225,715)
Dividends received		524,963	335,054
Other income		74,329	32,464
Non-interest income/(expense)		**1,643,886**	**(353,363)**
Personnel expenses		(366,825)	(361,255)
Depreciation and amortization		(28,402)	(28,201)
Other operating expenses		(171,092)	(154,880)
Other gains from impairment and provisions	10	–	64,965
Non-interest (expense)		**(566,319)**	**(479,371)**
Profit before income tax expense		**1,048,540**	**283,695**
Income tax expense	9	(82,768)	(184,518)
Profit for the reporting period		**965,772**	**99,177**

Interim statement of comprehensive income
for the six months ended 30 June 2018

(thousands of Russian rubles)

		For the six months ended 30 June (unaudited)	
	Notes	***2018***	***2017***
Profit for the reporting period		**965,772**	**99,177**
Other comprehensive (loss)			
Net change in fair value of available-for-sale investments		–	(54,003)
Deferred income tax attributable to components of other comprehensive income for the period		–	9,439
Other comprehensive (loss), net of tax		**–**	**(44,564)**
Total comprehensive income for the reporting period		**965,772**	**54,613**

Interim statement of changes in equity

for the six months ended 30 June 2018

(thousands of Russian rubles)

	Share capital	*Revaluation reserve for available-for-sale investments*	*Retained earnings*	*Total equity*
1 January 2017	**6,946,140**	**37,758**	**20,579,511**	**27,563,409**
Profit for the reporting period	–	–	99,177	**99,177**
Other comprehensive (loss) for the reporting period	–	(44,564)	–	**(44,564)**
Total comprehensive income for the reporting period	**–**	**(44,564)**	**99,177**	**54,613**
30 June 2017 (unaudited)	**6,946,140**	**(6,806)**	**20,678,688**	**27,618,022**
1 January 2018	**6,946,140**	**(12,096)**	**21,419,879**	**28,353,923**
Effect of applying IFRS 9 (Note 2)	–	12,096	(603,401)	**(591,305)**
1 January 2018 restated under IFRS 9	**6,946,140**	**–**	**20,816,478**	**27,762,618**
Profit for the reporting period	–	–	965,772	**965,772**
Other comprehensive income for the reporting period	–	–	–	**–**
Total comprehensive income for the reporting period	**–**	**–**	**965,772**	**965,772**
Dividends to shareholders of the Bank (Note 14)	–	–	(442,273)	**(442,273)**
30 June 2018 (unaudited)	**6,946,140**	**–**	**21,339,977**	**28,286,117**

Interim statement of cash flows

for the six months ended 30 June 2018

(thousands of Russian rubles)

	Notes	*For the six months ended 30 June (unaudited)* 2018	2017
Cash flows from operating activities			
Interest received		2,453,840	2,531,743
Interest paid		(1,457,439)	(289,975)
Fees and commissions received		253,774	213,178
Fees and commissions paid		(32,134)	(24,795)
Gains less losses from financial assets at fair value through profit or loss		711,669	907,206
Gains less losses from precious metals		329,267	60,687
Realized gains less losses from dealing in foreign currencies		(2,848)	44,157
Dividends received		171,208	203,430
Other income received		73,833	32,464
Personnel expenses paid		(351,640)	(349,437)
Other operating expenses paid		(168,148)	(145,909)
Cash flows from operating activities before changes in operating assets and liabilities		**1,981,382**	**3,182,749**
Net (increase)/decrease in operating assets			
Obligatory reserve with the CBR		31,608	(17,766)
Financial assets at fair value through profit or loss		(7,631,488)	(1,278,743)
Amounts due from credit institutions		(11,601)	(532)
Loans to customers		(4,176,251)	25,962
Other assets		(215,961)	276,729
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		15,128,787	(717,995)
Amounts due to customers		(3,108,151)	(4,214,698)
Debt securities issued		(3,068,931)	(257,527)
Other liabilities		34,033	13,170
Net cash flows from operating activities before income tax		**(1,036,573)**	**(2,988,651)**
Income tax paid		(170,556)	(266,069)
Net cash (used in) operating activities		**(1,207,129)**	**(3,254,720)**
Cash flows from investing activities			
Purchase of available-for-sale securities		–	(144,397)
Proceeds from sale and redemption of available-for-sale securities		–	235,146
Purchase of property and equipment		(14,568)	(5,718)
Proceeds from sale of property and equipment		496	4
Proceeds from sale of investment property		11,475	–
Net cash (used in)/from investing activities		**(2,597)**	**85,035**
Effect of exchange rates changes on cash and cash equivalents		174,982	(52,530)
Net (decrease) in cash and cash equivalents		**(1,034,744)**	**(3,222,215)**
Cash and cash equivalents, beginning	3	7,204,333	13,753,584
Cash and cash equivalents, ending	3	**6,169,589**	**10,531,369**

(thousands of Russian rubles)

1. Principal activities

CentroCredit joint-stock commercial bank (the "Bank") was formed in 1989. In 2015, the Bank changed its legal form from closed joint-stock company to joint-stock company in order to bring its incorporation documents in line with Chapter 4 of the Civil Code of the Russian Federation as required by Federal Law No. 99-FZ *On Amending Chapter 4 of Part 1 of the Civil Code of the Russian Federation, and on Recognizing Some Provisions of Russian Legislative Acts to be Void* dated 5 May 2014.

The Bank operates under a general banking license issued by the Central Bank of Russia (the "CBR") on 17 December 2014, as well as the CBR license for operations with precious metals (issued on 17 December 2014). The Bank also holds the following licenses related to its principal activity:

- License of a professional participant of the securities market for dealer activities No. 177-06344-010000 dated 19 September 2003.
- License of a professional participant of the securities market for broker activities No. 177-06333-100000 dated 19 September 2003.
- License of a professional participant of the securities market for custody services No. 177-06413-000100 dated 26 September 2003.

The Bank accepts deposits from legal entities and individuals and extends credit, transfers payments in Russia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The Bank's main office is in Moscow. The Bank has 4 additional offices, 9 internal structural divisions and a representative office in London (United Kingdom). The Bank's registered legal address is Russia 119017, Moscow, 31/2 Pyatnitskaya ulitsa, bld. 1.

Starting from 11 November 2004, the Bank is a member of the deposit insurance system. The system operates under the Federal laws and regulations and is governed by State Corporation "Agency for Deposits Insurance". Insurance covers the Bank's liabilities to individual depositors for the amount up to 1,400 thousand of Russian rubles for each individual in case of business failure or revocation of the CBR banking license.

As at 30 June 2018 and 31 December 2017, the Bank employed 476 and 490 people, respectively.

As at 30 June 2018 and 31 December 2017, the Bank's shareholders were as follows:

Shareholder	***30 June 2018, % (unaudited)***	***31 December 2017, %***
CENTRORIVER HOLDINGS LTD	67.85	67.85
Trial LLC	13.81	13.81
Andrey Igorevich Tarasov	11.96	11.96
Ilya Yuryevich Korbashov	6.34	6.34
Other	0.04	0.04
Total	**100.00**	**100.00**

As at 30 June 2018 and 31 December 2017, the Bank's ultimate controlling party is Andrey Igorevich Tarasov.

As at 30 June 2018 and 31 December 2017, the Bank's Board of Directors was as follows:

Name	***Position on the Board of Directors***	***Ownership of the Bank's shares (ultimate) 30 June 2018, % (unaudited)***	***Ownership of the Bank's shares (ultimate) 31 December 2017, %***
Andrey Igorevich Tarasov	Chairman of the Board of Directors	81.84	81.84
Ilya Yuryevich Korbashov	Member of the Board of Directors	18.12	18.12
Jacques Der Megreditchian	Member of the Board of Directors	–	–
Nikolay Aleksandrovich Anoshko	Member of the Board of Directors	–	–
Artyom Albertovich Dilenyan	Member of the Board of Directors	–	–

(thousands of Russian rubles)

2. Basis of preparation

General

These interim condensed financial statements for the six months ended 30 June 2018 were prepared in accordance with International Financial Reporting Standards (IAS) 34, *Interim Financial Statements* based on the assumption that the Bank will operate as a going concern in the foreseeable future. The Bank's management does not intend to liquidate the Bank or cease its operations. Under the going concern assumption, assets and liabilities are recorded on the basis that the Bank will be able to realize its assets and discharge its liabilities in the normal course of business.

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Bank's annual financial statements as at 31 December 2017.

The Bank is required to maintain accounting records and prepare financial statements for regulatory purposes in accordance with Russian accounting and banking legislation and related instructions ("RAL"). These financial statements are based on RAL, as adjusted and reclassified in order to comply with IFRS. These financial statements are presented in thousands of Russian rubles ("RUB"), unless otherwise indicated.

These financial statements will be disclosed at the Bank's web site (www.ccb.ru) not later than in 30 days from the deadline for its presentation to the participants (shareholders, founders) or owners of the entity's assets in accordance with Part 7 of Article 4 of Law No. 208-FZ *On the Consolidated Financial Statements*.

Changes in accounting policies

The accounting policies adopted in the preparation of these interim condensed financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as at 1 January 2018, noted below. The nature and effect of these changes are disclosed below. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning 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 recognized directly in equity as at 1 January 2018 and are disclosed below.

(a) Classification and measurement

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

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

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

Derivatives are measured at FVPL. Embedded derivatives are not separated from a host financial asset.

(thousands of Russian rubles)

2. Basis of preparation (continued)

Changes in accounting policies (continued)

All financial liabilities are classified as measured at amortized cost, except for:

a) Financial liabilities at fair value through profit or loss;

b) Financial guarantees;

c) Liabilities on loans bearing a below-market interest rate.

(b) Impairment

Adoption of IFRS 9 fundamentally changes the accounting for loan impairment losses that are calculated based on the expected credit loss (ECL) model rather than on the basis of incurred losses model stipulated by IAS 39. Starting from 1 January 2018, the Bank recognizes provision for ECL for all loans and other debt financial instruments not measured at FVPL, as well as for loan commitments and financial guarantee contracts, which are collectively referred to as financial instruments in this section. 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 (lifetime ECL), if there has been a significant increase in credit risk since the date of initial recognition, in which case, the allowance is based on the 12-month expected credit losses (12mECL). 12-month ECL are part of lifetime ECL and represent ECL arising from defaults on a financial instrument expected to occur 12 months after the reporting date. Both the lifetime ECL and the 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the portfolio of financial instruments.

The Bank 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, the Bank groups its loans as follows:

Stage 1:	When loans are first recognized, the Bank recognizes a provision based on 12mECL. Stage 1 loans also include loans and other credit facilities where the credit risk has improved and loans have been reclassified from Stage 2.
Stage 2:	When a loan has shown a significant increase in credit risk since origination, the Bank records a provision for the LTECL. Stage 2 loans also include loans and other credit facilities where the credit risk has improved and loans have been reclassified from Stage 3.
Stage 3:	Credit-impaired loans. The Bank records a provision for the LTECL.
POCI assets:	Purchased or originated credit-impaired (POCI) financial assets are assets that are credit-impaired on initial recognition. POCI financial assets are recorded at fair value at initial recognition, and interest income is subsequently recognized based on the credit-adjusted EIR. The ECL allowance is recognized or derecognized only to the extent that there is a change in the amount of expected credit losses.

For financial assets for which the Bank 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. Such a decrease is considered (partial) derecognition of the financial asset.

The Bank calculates ECL on the basis of probability-weighted scenarios to measure the expected cash shortfalls, discounted at the EIR or an approximation to the EIR. Cash shortfalls represent a difference between cash flows that are due to the entity under the contract and cash flows that the entity expects to receive. The ECL calculation method is outlined below, and its key elements are as follows:

Probability of default (PD)	The *Probability of default* (PD) is an estimate of the likelihood of default over a given time horizon. Default may occur only at a certain point in time within the stated period unless the asset was derecognized or excluded from the portfolio.
Exposure at default (EAD)	*Exposure at default* (EAD) is an estimate of the exposure at default at a certain future date, adjusted to reflect its changes expected after the reporting date, including payments of interest or principal amount due under a contract or otherwise, repayment of loans issued and interest accrued on overdue payments.
Loss given default (LGD)	*Loss given default* (LGD) is an estimate of losses arising on default at a certain point of time. LGD is calculated as a difference between contractual cash flows and cash flows a creditor expects to receive, including from the sale of collateral. This estimate is usually expressed as EAD percentage.

(thousands of Russian rubles)

2. Basis of preparation (continued)

Changes in accounting policies (continued)

When assessing ECL, the Bank considers two scenarios: basic and pessimistic. Both scenarios are included in PD calculation. EAD and LGD are determined based on maximum conservative estimates. The Bank uses a wide range of forecast information as economic inputs for its ECL assessment models. Impairment losses and their reversal are accounted for and recorded separately from gain or loss from modification recognized as an adjustment to the gross carrying amount of financial assets.

The Bank believes an increase in the credit risk related to a financial asset since the date of its initial recognition to be significant, if the borrower's internal credit rating has deteriorated by 3 rating categories and in case of deterioration and concurrent assignment of low credit rating (CCC+ and less). In addition, the Bank applies a qualitative tool to identify a significant increase in credit risk associated with an asset, e.g. asset restructuring. Regardless of changes in ratings, an increase in credit risk since the date of initial recognition is considered significant, if contractual payments are over 30 days past due.

For ECL calculation purposes, the Bank considers the financial instrument to be in default, and, therefore, includes it in Stage 3 (credit-impaired assets) whenever a borrower is 90 days late with contractual payments. The Bank applies additional qualitative characteristics of credit impairment such as surveillance procedure imposed by the court with regard to the Borrower or asset restructuring related to financial difficulties of the Borrower.

The Bank individually assesses ECL related to the following assets: all Stage 3 assets, corporate loans, treasury and interbank transactions and balances (amounts due from banks, reverse repurchase agreements, debt instruments measured at amortized cost/ at FVOCI), financial assets classified as POCI assets as a result of debt restructuring on the derecognition of the original loan and the recognition of a new loan. The Bank collectively assesses ECL related to other asset classes, grouped into homogeneous groups based on their internal and external characteristics.

(c) Effect of transition to IFRS 9

The effect of adopting IFRS 9 on the statement of financial position and retained earnings, including the implications of replacing the incurred credit loss model in IAS 39 with the ECL model in IFRS 9, is set out below.

A reconciliation between the carrying amount under IAS 39 with the carrying amount under IFRS 9 as of 1 January 2018 is as follows:

Unaudited

		IAS 39 measurement		*Reclassifi-*	*Revaluation*		*IFRS 9 measurement*	
Financial assets	***Notes***	***Type***	***Amount***	***cation***	***ECL***	***Other***	***Amount***	***Category***
Cash and accounts with the CBR		LR[1]	2,611,594	–	–	–	2,611,594	Amortized cost
Financial assets at fair value through profit or loss		FVPL[2]	19,211,976	8,220,486	–	(4,450)	27,428,012	FVPL (mandatory)
From: Available-for-sale investments	A		(245,609)	257,705	–	(12,096)	–	
From: Held-to-maturity investments	B		(7,970,427)	7,962,781	–	7,646	–	
Financial assets at fair value through profit or loss pledged under repurchase agreements		FVPL	20,195,156	–	–	–	20,195,156	FVPL (mandatory)
Amounts due from credit institutions		LR[1]	4,823,241	–	(8,600)	–	4,814,641	Amortized cost
Loans to customers – amortized cost		LR[1]	15,035,606	–	(969,871)	–	14,065,735	Amortized cost
Other financial assets	C	LR[1]	291,010	67	206	–	291,283	Amortized cost
From: Available-for-sale investments			(67)	67	–	–	–	
Total assets			**62,168,583**	**8,220,553**	**(978,265)**	**(4,450)**	**69,406,421**	
Non-financial liabilities – allowances for expected credit losses by:								
- financial guarantees			844,109	–	(179,276)	–	664,833	
- undrawn loan commitments			124,534	–	(49,188)	–	75,346	
Non-financial liabilities								
Deferred tax liabilities			566,766	–	(149,960)	(890)	415,916	
Total liabilities			**1,535,409**	**–**	**(378,424)**	**(890)**	**1,156,095**	

[1] LR – loans and receivables;

[2] FVPL – financial assets at fair value through profit or loss;

[3] FVOCI – financial assets at fair value through other comprehensive income.

(thousands of Russian rubles)

2. Basis of preparation (continued)

Changes in accounting policies (continued)

The application of the Bank's accounting policies for classification of financial instruments under IFRS 9 resulted in reclassifications presented in the table above and described below.

A The Bank classified a part of available-for-sale equity securities as financial assets measured at FVPL under IFRS 9.

B According to IFRS 9, the Bank classified held-to-maturity debt securities as held to maturity as financial assets measured at FVPL.

C The Bank made an irrevocable election to reclassify certain investments in equity instruments previously classified as 'available for sale' to 'investments in equity instruments at FVOCI'.

The effect of transition to IFRS 9 on revaluation reserve and retained earnings is as follows:

Unaudited

	Revaluation reserves	*Retained earnings*
Balance under IAS 39 (31 December 2017), ending	**(12,096)**	**21,419,879**
Remeasurement due to reclassification of financial assets from available for sale to measured at FVPL	12,096	(12,096)
Revaluation on reclassification of debt securities from held to maturity to measured at FVPL	–	7,646
Recognition of ECL, including ECL on instruments measured at FVOCI, under IFRS 9	–	(749,801)
Related deferred tax	–	150,850
Balance under IFRS 9 (1 January 2018), beginning	**–**	**20,816,478**
Total changes in equity due to the adoption of IFRS 9	**12,096**	**(603,401)**

The following table reconciles the aggregate loan impairment allowance at the beginning of the period under IAS 39 and provisions for loan commitments and financial guarantee contracts as per IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* to the ECL provisions under IFRS 9.

Unaudited

	Allowance for loan impairment under IAS 39 / IAS 37 as at 31 December 2017	*Revaluation*	*ECL as per IFRS 9 as at 1 January 2018*
Allowance for impairment			
Amounts due from credit institutions	–	8,600	8,600
Loans to customers	15,102,429	969,871	16,072,300
Other financial assets	17,928	(206)	17,722
	15,120,357	**978,265**	**16,098,622**
Financial guarantees	844,109	(179,276)	664,833
Undrawn loan commitments	124,534	(49,188)	75,346
	968,643	**(228,464)**	**740,179**
	16,089,000	**749,801**	**16,838,801**

IFRS 15 Revenue from Contracts with Customers

IFRS 15, issued in May 2014, and amended in April 2016, establishes a five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized 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. The standard, however, does not apply to income related to financial instruments or leases, and therefore does not impact the majority of the Bank's income, including interest income, net gains/(losses) from investment securities, lease income regulated by IFRS 9, *Financial Instruments* and IAS 17 *Leases*. As a result, a significant portion of the Bank's income is not affected by the adoption of this standard.

(thousands of Russian rubles)

3. Cash and accounts with the CBR

Cash comprises:

	30 June 2018 (unaudited)	*31 December 2017*
Cash on hand	1,455,889	1,054,494
Accounts with the CBR	916,784	1,557,100
Cash and accounts with the CBR	**2,372,673**	**2,611,594**

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBR, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such deposit is significantly restricted by the statutory legislation.

As at 30 June 2018 and 31 December 2017, obligatory reserve with the CBR amounted to RUB 144,999 thousand and RUB 176,607 thousand, respectively.

Cash and cash equivalents for the purposes of the statement of cash flows comprise the following:

	30 June 2018 (unaudited)	*31 December 2017*
Current and clearing accounts with credit institutions (Note 5)	3,370,720	4,042,758
Cash and accounts with the CBR	2,372,673	2,611,594
Time deposits with credit institutions up to 90 days (Note 5)	636,978	780,483
	6,380,371	**7,434,835**
Less:		
Obligatory reserve with the CBR	(144,999)	(176,607)
Encumbered current and clearing accounts with credit institutions	(53,210)	(53,895)
Allowance for impairment (Note 5)	(12,573)	–
Cash and cash equivalents	**6,169,589**	**7,204,333**

All balances of cash and cash equivalents are taken to Stage 1.

4. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

	30 June 2018 (unaudited)	*31 December 2017*
Equity securities	17,581,115	18,085,000
Russian state bonds	1,647,197	510,248
Bonds of credit institutions	550,623	548,394
Derivative financial assets	43,168	68,334
Financial assets at fair value through profit or loss	**19,822,103**	**19,211,976**

Financial assets at fair value through profit or loss pledged under repurchase agreements comprise:

	30 June 2018 (unaudited)	*31 December 2017*
Russian state bonds	32,654,402	20,009,816
Equity securities	3,112,218	185,340
Financial assets at fair value through profit or loss pledged under repurchase agreements	**35,766,620**	**20,195,156**

(thousands of Russian rubles)

4. Financial assets at fair value through profit or loss (continued)

Derivative financial instruments

The Bank enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	30 June 2018 (unaudited)			*31 December 2017*		
	Notional amount	*Fair value*		*Notional amount*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Foreign exchange contracts						
Futures – foreign	963,632	–	–	771,342	–	–
Futures – domestic	1,757,182	–	–	3,024,011	–	–
Credit derivative financial instruments						
Credit default swaps – foreign	6,576,617	41,646	–	6,183,773	68,334	–
Equity contracts						
Forwards (equity securities) – domestic	101,439	–	13,611	–	–	–
Contracts for precious metals						
Precious metal forwards – domestic	1,902,511	1,522	–	–	–	–
Total derivative assets/ liabilities		**43,168**	**13,611**		**68,334**	**–**

Foreign and domestic in the table above stand for counterparties where foreign means non-Russian entities and domestic means Russian entities.

As at 30 June 2018 and 31 December 2017, the Bank has positions in the following types of derivatives:

Forwards and futures

Forwards and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures contracts are transacted in standardized amounts on regulated exchanges and are subject to daily cash margin requirements. The fair value of standardized exchange-traded contracts providing for the daily transfer of a variation margin is determined as the amount of claims for (obligation to pay) a variation margin at the end of the operating day.

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

5. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	30 June 2018 (unaudited)	*31 December 2017*
Current and clearing accounts with credit institutions	3,370,720	4,042,758
Time deposits with credit institutions up to 90 days	636,978	780,483
	4,007,698	**4,823,241**
Less : allowance for impairment	(12,573)	–
Amounts due from credit institutions	**3,995,125**	**4,823,241**

(thousands of Russian rubles)

5. Amounts due from credit institutions (continued)

An analysis of changes in the ECL provisions for the six months ended 30 June 2018 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL as at 1 January 2018 under IFRS 9 (unaudited)	**8,600**	**–**	**–**	**8,600**
New originated or purchased assets	756	–	–	**756**
Assets derecognized or redeemed (excluding write-offs)	(2,173)	–	–	**(2,173)**
Transfers to Stage 3	(1,735)	–	1,735	**–**
Effect on ECL at the year-end due to transfers between stages during the year	–	–	5,390	**5,390**
30 June 2018 under IFRS 9 (unaudited)	**5,448**	**–**	**7,125**	**12,573**

No allowances for impairment of amounts due from credit institutions were accrued for the six months ended 30 June 2017.

6. Loans to customers

Loans to customers comprise:

	30 June 2018 (unaudited)	*31 December 2017*
Loans to legal entities	20,911,140	18,834,416
Reverse repurchase agreements	6,715,971	4,240,356
Loans to individuals	5,164,500	5,720,962
Net investment in finance leases	1,354,294	1,342,301
Total loans to customers	**34,145,905**	**30,138,035**
Less: allowance for impairment	(16,351,828)	(15,102,429)
Loans to customers	**17,794,077**	**15,035,606**

Allowance for impairment of loans to customers

An analysis of changes in the ECL provisions for the six months ended 30 June 2018 is as follows:

Loans to legal entities	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Allowance for ECL as at 1 January 2018 under IFRS 9 (unaudited)	**280,910**	**7,183,081**	**3,209,976**	**–**	**10,673,967**
New assets, including under previously extended credit lines	309,321	117,179	12,001	–	**438,501**
Assets derecognized or redeemed (excluding write-offs)	(30,167)	(123,042)	–	–	**(153,209)**
Transfers to Stage 2	(297,695)	297,695	–	–	**–**
Effect on ECL at the year-end due to transfers between stages during the year	–	561,979	–	–	**561,979**
Changes in models and inputs used for ECL assessment	(6,205)	297,043	34,223	–	**325,061**
Write-off on sale of assets	–	–	(176,152)	–	**(176,152)**
Write-off against allowance	–	–	(629)	–	**(629)**
30 June 2018 under IFRS 9 (unaudited)	**256,164**	**8,333,935**	**3,079,419**	**–**	**11,669,518**

Reverse repurchase agreements	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Allowance for ECL as at 1 January 2018 under IFRS 9 (unaudited)	**1,272,107**	**–**	**–**	**–**	**1,272,107**
New originated or purchased assets	863,567	–	–	**–**	**863,567**
Assets derecognized or redeemed (excluding write-offs)	(1,272,107)	–	–	–	**(1,272,107)**
30 June 2018 under IFRS 9 (unaudited)	**863,567**	**–**	**–**	**–**	**863,567**

(thousands of Russian rubles)

6. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

Loans to individuals	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Allowance for ECL as at 1 January 2018 under IFRS 9 (unaudited)	**2,384,961**	**–**	**430,468**	**–**	**2,815,429**
New assets, including under previously extended credit lines	20,672	–	4,508	–	**25,180**
Assets derecognized or redeemed (excluding write-offs)	(339,277)	–	(2,893)	–	**(342,170)**
30 June 2018 under IFRS 9 (unaudited)	**2,066,356**	**–**	**432,083**	**–**	**2,498,439**

Net investment in finance leases	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Allowance for ECL as at 1 January 2018 under IFRS 9 (unaudited)	**–**	**1,310,797**	**–**	**–**	**1,310,797**
Changes in models and inputs used for ECL assessment	–	9,507	–	–	**9,507**
30 June 2018 under IFRS 9 (unaudited)	**–**	**1,320,304**	**–**	**–**	**1,320,304**

A reconciliation of the allowance for impairment of loans to customers by class for the six months ended 30 June 2017 under IAS 39 is as follows:

	Loans to legal entities	***Loans to individuals***	***Reverse repurchase agreements***	***Net investment in finance leases***	***Total***
1 January 2017	**11,087,306**	**1,636,238**	**580,898**	**1,350,275**	**14,654,717**
Allowance / (reversal of allowance)	(1,125,584)	1,337,309	231,106	(20,406)	**422,425**
Loans written off against allowance	(79,600)	–	–	–	**(79,600)**
30 June 2017 (unaudited)	**9,882,122**	**2,973,547**	**812,004**	**1,329,869**	**14,997,542**

Restructured and renegotiated loans

The Bank derecognizes a financial asset, e.g. a loan to a customer, if the related contractual terms are renegotiated to the extent that it in fact becomes a new loan, and records the difference in gains or losses arising from derecognition before impairment loss is recognized. On initial recognition, loans are classified to Stage 1 for ECL measurement purposes, unless the newly originated loan is deemed to be a POCI asset.

If renegotiation does not imply a significant change in cash flows, such renegotiation does not result in derecognition. Based on the changes in cash flows discounted at the original EIR, the Bank recognizes gains or losses from modification before impairment loss is recognized.

There were no significant modifications of loans during the reporting period.

7. Available-for-sale investments

As at 31 December 2017, available-for-sale investments in the amount of RUB 245,676 thousand included equity securities of Russian companies.

8. Held-to-maturity investments

As at 31 December 2017, held-to-maturity investments of RUB 7,962,781 thousand include Russian state bonds with a nominal interest rate of 7.7% p.a. that mature on 23 March 2033.

(thousands of Russian rubles)

9. Taxation

The corporate income tax expense comprises:

	For the six months ended 30 June 2018 (unaudited)	*For the six months ended 30 June 2017 (unaudited)*
Current tax charge	206,648	296,466
Deferred tax (charge) – origination and reversal of temporary differences	(123,880)	(111,948)
Income tax expense	**82,768**	**184,518**

10. Provision for credit losses, other impairment losses and provisions

The table below shows allowances for ECL on financial instruments recorded in profit or loss for the six months ended 30 June 2018:

Unaudited

	Notes	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Cash and accounts with the CBR	3	–	–	–	–	**–**
Amounts due from credit institutions	5	(3,152)	–	7,125	–	**3,973**
Loans to customers	6	(751,891)	1,160,361	47,839	–	**456,309**
Other financial assets	10	(3,622)	–	(172)	–	**(3,794)**
Financial guarantees	15	490,319	228,378	–	–	**718,697**
Undrawn loan commitments	15	56,797	1,839	–	–	**58,636**
Letters of credit	15	2	–	–	–	**2**
Total credit loss expense		**(211,547)**	**1,390,578**	**54,792**	**–**	**1,233,823**

Movements in allowances for ECL on other financial assets for the six months ended 30 June 2018 are as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL as at 1 January 2018 under IFRS 9 (unaudited)	**13,412**	**–**	**4,310**	**17,722**
New originated or purchased assets	2,766	–	39	**2,805**
Assets derecognized or redeemed (excluding write-offs)	(6,388)	–	(211)	**(6,599)**
30 June 2018 under IFRS 9 (unaudited)	**9,790**	**–**	**4,138**	**13,928**

The movements in allowance for impairment and other provisions for the six months ended 30 June 2017 under IAS 39 were as follows:

	Other assets	*Guarantees, credit facilities and overdrafts issued*	*Total*
1 January 2017	**28,594**	**1,990,601**	**2,019,195**
(Reversal)	(770)	(64,195)	**(64,965)**
30 June 2017 (unaudited)	**27,824**	**1,926,406**	**1,954,230**

(thousands of Russian rubles)

11. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	30 June 2018 (unaudited)	*31 December 2017*
Repurchase agreements	37,734,742	22,616,227
Amounts due to credit institutions	**37,734,742**	**22,616,227**

As at 30 June 2018 and 31 December 2017, amounts due to credit institutions included repurchase agreements with Russian credit institutions maturing on 6 July 2018 and 12 January 2018, respectively.

12. Amounts due to customers

Amounts due to customers comprise:

	30 June 2018 (unaudited)	*31 December 2017*
Current accounts	5,310,120	5,906,484
Time deposits	3,990,574	5,964,754
Brokerage accounts	1,895,541	1,985,447
Amounts due to customers	**11,196,235**	**13,856,685**

Included in time deposits are deposits of individuals in the amount of RUB 3,559,494 thousand (31 December 2017: RUB 3,621,591 thousand). In accordance with the Russian Civil Code, the Bank is obliged to repay such deposits upon demand of a depositor. In case a time deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

13. Debt securities issued

Debt securities issued comprise:

	30 June 2018 (unaudited)	*31 December 2017*
Savings certificates	1,361,924	4,504,952
Promissory notes	121,312	172,169
Debt securities issued	**1,483,236**	**4,677,121**

Interest-bearing promissory notes and savings certificates issued by the Bank as at 30 June 2018 bear annual interest rates ranging from 0.01% to 13.20% (31 December 2017: from 0.01% to 13.20%) and mature through 18 April 2028 (31 December 2017: through 21 December 2026).

14. Equity

The authorized, issued and fully paid share capital comprises:

	Number of shares		*Nominal amount*		*Inflation*	
	Preferred	*Ordinary*	*Preferred*	*Ordinary*	*adjustment*	*Total*
31 December 2017	48	17,168,974	5	6,695,900	250,235	**6,946,140**
30 June 2018	48	17,168,974	5	6,695,900	250,235	**6,946,140**

The share capital of the Bank was contributed by the shareholders in Russian rubles and they are entitled to dividends and any capital distribution in Russian rubles.

(thousands of Russian rubles)

14. Equity (continued)

At the shareholders' meeting held in June 2018, the Bank declared and paid dividends for 2017 in the amount of 442,273 thousand using the profit for 2017 and a part of retained earnings for prior years: RUB 25.76 per one ordinary share and RUB 6.44 per one preferred share. The dividends were paid in July 2018.

As at 30 June 2018, settlements with shareholders in the amount of RUB 442,786 thousand were recognized in other liabilities.

At the shareholders' meeting held in September 2017, the Bank declared and paid dividends in respect of the six months of 2017 using retained earnings for prior years, totaling RUB 600,228 thousand on ordinary shares (RUB 34.96 per share) and preferred shares (RUB 8.74 per share). At the shareholders' meeting held in June 2017, the Bank declared and paid dividends for 2016 using retained earnings for prior years totaling RUB 309,729 thousand on ordinary shares (RUB 18.04 per share) and preferred shares (RUB 4.51 per share).

15. Commitments and contingencies

Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent on these reforms and developments and the effectiveness of economic, financial and monetary measures taken by the Russian government.

The Russian economy has been negatively affected by sanctions imposed on Russia by a number of countries. The ruble interest rates remained high. The combination of the above resulted in reduced access to capital, a higher cost of capital, and increased uncertainty regarding economic growth, which could negatively affect the Bank's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

Taxation

Major part of the Bank's business activity is carried out in the Russian Federation. Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation and application of this legislation and assessments. It is therefore possible that transactions and activities of the Bank that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities. Tax reviews of the accuracy of tax calculation and payment conducted by the tax authorities may cover three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

As at 30 June 2018, management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

(thousands of Russian rubles)

15. Commitments and contingencies (continued)

Taxation (continued)

The Bank's commitments and contingencies comprised the following:

	30 June 2018 (unaudited)	*31 December 2017*
Credit-related commitments		
Guarantees	13,353,335	6,579,682
Undrawn loan commitments	709,198	550,807
Letters of credit	681	–
	14,063,214	**7,130,489**
Operating lease commitments		
Less than 1 year	5,820	5,774
1 to 5 years	–	–
Over 5 years	–	–
	5,820	**5,774**
Less: provisions	(1,517,514)	(968,643)
Commitments and contingencies	**12,551,520**	**6,167,620**

An analysis of movements in the allowances for ECL during the six months ended 30 June 2018 is as follows:

Financial guarantees	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Allowance for ECL as at 1 January 2018 under IFRS 9 (unaudited)	**543,568**	**120,558**	**707**	**664,833**
New financial guarantees	1,221,238	–	–	**1,221,238**
Financial guarantees derecognized or redeemed (except for write-offs)	(446,903)	(108,448)	–	**(555,351)**
Transfers to Stage 2	(292,092)	292,092	–	**–**
Effect on ECL at the year-end due to transfers between stages during the year	–	44,639	–	**44,639**
Changes in models and inputs used for ECL assessment	8,076	95	–	**8,171**
30 June 2018 under IFRS 9 (unaudited)	**1,033,887**	**348,936**	**707**	**1,383,530**

Undrawn loan commitments	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Allowance for ECL as at 1 January 2018 under IFRS 9 (unaudited)	**32,082**	**43,264**	**–**	**75,346**
New liabilities, including under previously extended credit lines	82,174	2,035	–	**84,209**
Liabilities derecognized or redeemed (excluding write-offs)	(8,902)	(1,931)	–	**(10,833)**
Transfers to Stage 2	(13,652)	13,652	–	**–**
Effect on ECL at the year-end due to transfers between stages during the year	–	(2,662)	–	**(2,662)**
Changes in models and inputs used for ECL assessment	(2,823)	(9,255)	–	**(12,078)**
30 June 2018 under IFRS 9 (unaudited)	**88,879**	**45,103**	**–**	**133,982**

Letters of credit	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Allowance for ECL as at 1 January 2018 under IFRS 9 (unaudited)	**–**	**–**	**–**	**–**
New letters of credit	2	–	–	**2**
30 June 2018 under IFRS 9 (unaudited)	**2**	**–**	**–**	**2**

The Bank entered into agreements on the provision of guarantees within established limits. As at 30 June 2018, the unused limits on guarantee issuance amounted to RUB 10,781,870 thousand (31 December 2017: RUB 13,188,812 thousand).

(thousands of Russian rubles)

16. Fair value measurement

Fair value measurement procedures

Classification of fair value measurement is based on the fair value hierarchy (Level 1, 2 or 3). The levels correlate to the possibility of direct measurement of fair value using the market data and reflect the materiality of the inputs used for the fair value measurement:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets which are available to the Bank at the measurement date;
- Level 2 inputs are inputs other than Level 1 quoted prices, that are observable on the market either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Fair value hierarchy

The Bank maximizes the use of observable inputs and minimizes the use of unobservable inputs.

For the purpose of fair value disclosures, the Bank 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.

	Items measured at fair value on a regular basis			
30 June 2018 (unaudited)	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Financial assets at fair value through profit or loss	*55,025,756*	*562,967*	–	***55,588,723***
Russian state bonds	34,301,599	–	–	**34,301,599**
Equity securities	20,173,534	519,799	–	**20,693,333**
Bonds of credit institutions	550,623	–	–	**550,623**
Derivative financial instruments, including:	–	43,168	–	**43,168**
- Credit default swaps – foreign	–	41,646	–	**41,646**
- Forwards (precious metals) – domestic	–	1,522	–	**1,522**
Investment property	–	–	*531,090*	***531,090***
Financial liabilities				
Other financial liabilities (derivative financial instruments)	–	*13,611*	–	***13,611***
Share futures – domestic	–	13,611	–	**13,611**

	Items measured at fair value on a regular basis			
31 December 2017	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Financial assets at fair value through profit or loss	*39,027,639*	*379,493*	–	***39,407,132***
Russian state bonds	20,520,064	–	–	**20,520,064**
Bonds of credit institutions	548,394	–	–	**548,394**
Equity securities	17,959,181	311,159	–	**18,270,340**
Derivative financial instruments, including:	–	68,334	–	**68,334**
- Credit default swaps – foreign	–	68,334	–	**68,334**
Available-for-sale investments	*100,797*	*144,879*	–	***245,676***
Equity securities	100,797	144,879	–	**245,676**
Investment property	–	–	*547,820*	***547,820***

Except as detailed above, the fair value of financial assets and liabilities approximates their carrying amount.

(thousands of Russian rubles)

16. Fair value measurement (continued)

Fair value hierarchy (continued)

Items measured at fair value on a regular basis

The following is a description of the procedure for measuring items which are measured at fair value on a regular basis, using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly credit default swaps. The valuation model incorporates various inputs, including forward and spot rates, the fair value of the underlying asset as well as interest rate curves.

Financial assets at fair value through profit or loss and investment securities

Securities valued using a valuation technique primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Transfers between the levels of the fair value hierarchy are deemed to have been made as at the end of the reporting period.

Movements in Level 3 financial instruments at fair value

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets which are recorded at fair value:

	1 January 2018	*Total gains/ (losses) recorded in profit or loss*	*Total gains/ (losses) recorded in other comprehensive income*	*Purchases*	*Sales*	*Other movements*	*30 June 2018 (unaudited)*
Financial assets							
Investment property	547,820	–	–	–	(16,730)	–	531,090
	547,820	**–**	**–**	**–**	**(16,730)**	**–**	**531,090**

	1 January 2017	*Total gains/ (losses) recorded in profit or loss*	*Total gains/ (losses) recorded in other comprehensive income*	*Purchases*	*Sales*	*Other movements*	*31 December 2017*
Financial assets							
Investment property	503,319	(66,899)	–	159,893	(48,493)	–	547,820
	503,319	**(66,899)**	**–**	**159,893**	**(48,493)**	**–**	**547,820**

(thousands of Russian rubles)

16. Fair value measurement (continued)

Movements in Level 3 financial instruments at fair value (continued)

Transfers between Level 1 and Level 2

The following tables show transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets which are recorded at fair value during the six months ended 30 June 2018, and for the year ended 31 December 2017:

	Transfers from Level 1 to Level 2	
	30 June 2018 (unaudited)	***31 December 2017***
Financial assets		
Financial assets at fair value through profit or loss	49,354	159,287
Available-for-sale investments	–	79,311
	49,354	**238,598**

The above financial instruments were transferred from Level 1 to Level 2 as they ceased to be actively traded during the period and their fair values were consequently obtained through valuation techniques using observable market inputs.

	Transfers from Level 2 to Level 1	
	30 June 2018 (unaudited)	***31 December 2017***
Financial assets		
Financial assets at fair value through profit or loss	27,315	–

The above financial instruments were transferred from Level 2 to Level 1 as they became actively traded during the reporting period and fair values were consequently determined using quoted prices in an active market. There were no transfers from Level 2 to Level 1 during the year ended 31 December 2017.

Fair values of financial assets and liabilities not recorded at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	30 June 2018 (unaudited)			***31 December 2017***		
	Carrying amount	***Fair value***	***Unrecognized gain/(loss)***	***Carrying amount***	***Fair value***	***Unrecognized gain/(loss)***
Financial assets						
Cash and accounts with the CBR	2,372,673	2,372,673	–	2,611,594	2,611,594	–
Amounts due from credit institutions	3,995,125	3,995,125	–	4,823,241	4,823,241	–
Loans to customers	17,794,077	17,796,865	2,788	15,035,606	15,259,529	223,923
Held-to-maturity investments	–	–	–	7,962,781	7,970,427	7,646
Other financial assets	659,755	659,755	–	291,010	291,010	–
Financial liabilities						
Amounts due to credit institutions	37,734,742	37,734,742	–	22,616,227	22,616,227	–
Amounts due to customers	11,196,235	11,205,785	(9,550)	13,856,685	13,875,060	(18,375)
Debt securities issued	1,483,236	1,480,496	2,740	4,677,121	4,716,466	(39,345)
Other financial liabilities	716,669	716,669	–	220,786	220,786	–
Total unrecognized change in unrealized fair value			**(4,022)**			**173,849**

(thousands of Russian rubles)

17. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The outstanding balances of related party transactions at the end of the reporting period are as follows:

	30 June 2018 (unaudited)		***31 December 2017***	
	Transactions with related parties	***Total category as per the financial statements***	***Transactions with related parties***	***Total category as per the financial statements***
Loans to customers	**483,667**	**34,145,905**	**517,317**	**30,138,035**
Key management personnel	12,497		56,147	
Entities under common control	471,170		461,170	
Allowance for impairment of loans to customers	**(365,966)**	**(16,351,828)**	**(394,403)**	**(15,102,429)**
Key management personnel	(1,397)		(37,045)	
Entities under common control	(364,569)		(357,358)	
Amounts due to customers	**(1,117,717)**	**(11,196,235)**	**(1,341,953)**	**(13,856,685)**
Shareholders	(677,673)		(919,505)	
Key management personnel	(193,849)		(161,113)	
Entities under common control	(246,195)		(261,335)	
Debt securities issued	**(781,863)**	**(1,483,236)**	**(3,463,422)**	**(4,677,121)**
Shareholders	(762,532)		(3,443,686)	
Key management personnel	(19,331)		(19,736)	
Other liabilities	**(482,380)**	**(728,732)**	**(24,563)**	**(228,725)**
Shareholders	(449,199)		(2,854)	
Key management personnel	(33,181)		(21,709)	
Issued guarantees and loan commitments	**8,539**	**14,063,214**	**8,584**	**7,130,489**
Key management personnel	3,000		3,000	
Entities under common control	5,539		5,584	

(thousands of Russian rubles)

17. Related party disclosures (continued)

The income and expense arising from related party transactions are as follows:

	For the six months ended			
	30 June 2018 (unaudited)		*30 June 2017 (unaudited)*	
	Transactions with related parties	*Total category as per the financial statements*	*Transactions with related parties*	*Total category as per the financial statements*
Interest income	**32,755**	**2,509,723**	**30,110**	**1,885,033**
Key management personnel	5,248		2,340	
Entities under common control	27,507		27,770	
Interest expense	**(70,536)**	**(1,304,927)**	**(110,438)**	**(2,128,369)**
Shareholders	(66,883)		(108,086)	
Key management personnel	(2,578)		(2,023)	
Entities under common control	(1,075)		(329)	
(Allowance)/income for credit losses (2017: (allowance) for impairment of interest-earning assets)	**25,001**	**(1,233,823)**	**(62,880)**	**(422,425)**
Key management personnel	35,001		(36,429)	
Entities under common control	(10,000)		(26,451)	
Net (losses)/gains arising from foreign currencies	**(79,120)**	**(234,998)**	**(5,486)**	**(181,558)**
Shareholders	(56,389)		(25,459)	
Key management personnel	(12,554)		885	
Entities under common control	(10,177)		19,088	
Fee and commission income	**24,544**	**253,774**	**545**	**213,178**
Shareholders	24,148		197	
Key management personnel	89		82	
Entities under common control	307		266	
Other income	**47,494**	**74,329**	**5,662**	**32,464**
Shareholders	47,494		5,643	
Entities under common control	–		19	
Other operating expenses	**(3,641)**	**(171,092)**	**(3,983)**	**(154,880)**
Shareholders	(902)		(858)	
Key management personnel	(1,179)		(1,175)	
Entities under common control	(1,560)		(1,950)	

Compensation to key management personnel comprises the following:

	For the six months ended	
	30 June 2018 (unaudited)	*30 June 2017 (unaudited)*
Salaries and other short-term benefits	24,796	23,723
Long-term employee benefits	9,635	8,828
Mandatory pension contributions	4,072	3,847
Social security costs	1,621	1,599
Total key management personnel compensation	**40,124**	**37,997**

Key management personnel are represented by the Chairman of the Management Board, members of the Management Board, the Board of Directors and the Credit Committee.