PJSC “BANK SAINT PETERSBURG” Group

International Financial Reporting Standards Condensed Consolidated Interim Financial Information and Independent Auditors’ Report on Review

30 June 2018

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KPMG

Independent Auditors' Report on Review of Condensed Consolidated Interim Financial Information

To the Shareholders and Supervisory Board of
PJSC "Bank Saint Petersburg"

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of PJSC "Bank Saint Petersburg" (the "Bank") and its subsidiaries (the "Group")) as at 30 June 2018, and the related condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the condensed consolidated interim financial information (the "condensed consolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this (consolidated) interim condensed 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 condensed consolidated 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 condensed consolidated interim financial information as at 30 June 2018 and for the six-month period then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

Lukashova N.V.
JSC "KPMG"
Moscow, Russian Federation
27 August 2018

АКЦИОНЕРНОЕ ОБЩЕСТВО ОГРН 1027700125628
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KPMG
МОСКВА

(in thousands of Russian roubles)	Note	30 June 2018 (unaudited data)	31 December 2017
ASSETS			
Cash and cash equivalents		40 752 325	39 198 510
Mandatory reserve deposits with the Central Bank of the Russian Federation		3 201 652	3 020 485
Trading securities	6	60 722 088	17 372 259
Securities pledged under sale and repurchase agreements and loaned	7	81 585 774	73 549 639
Reverse sale and repurchase agreements	8	34 063 660	67 809 093
Derivative financial assets		2 218 396	1 217 534
Due from banks	9	23 974 952	34 939 256
Loans and advances to customers	10		
- loans and advances to legal entities		239 817 493	245 238 842
- loans and advances to individuals		78 342 461	72 977 068
Investment securities	11	9 926 927	22 512 774
Investment property		7 371 940	8 102 997
Premises, equipment and intangible assets		14 407 282	14 670 596
Other assets		5 136 203	5 704 305
Long-term assets held-for-sale		612 244	546 013
TOTAL ASSETS		**602 133 397**	**606 859 371**
LIABILITIES			
Due to banks		151 043 685	148 924 730
Customer accounts	12	354 668 816	352 972 148
Financial liabilities at fair value		4 880 465	12 511 033
Derivative financial liabilities		1 352 063	1 661 351
Bonds issued	13	6 898 282	7 137 892
Promissory notes and deposit certificates issued		7 257 795	7 253 345
Other borrowed funds	14	1 466 191	1 903 744
Other liabilities		2 535 554	3 584 999
TOTAL LIABILITIES		**530 102 851**	**535 949 242**
EQUITY			
Share capital	15	3 781 734	3 781 734
Share premium	15	24 513 878	24 513 878
Revaluation reserve for premises		3 651 455	3 651 455
Revaluation reserve for investment securities		1 186 752	1 264 691
Foreign currency translation reserve		(3 575)	(1 451)
Retained earnings		38 311 287	37 109 430
TOTAL EQUITY ATTRIBUTABLE TO:			
SHAREHOLDERS OF THE BANK		**71 441 531**	**70 319 737**
NON-CONTROLLING INTEREST		**589 015**	**590 392**
TOTAL EQUITY		**72 030 546**	**70 910 129**
TOTAL LIABILITIES AND EQUITY		**602 133 397**	**606 859 371**

Approved for issue and signed on behalf of the Management Board on 27 August 2018.

A.V. Savelyev
Chairman of the Management Board

N.G. Tomilina
Chief Accountant

(in thousands of Russian roubles)	Note	6 months ended 30 June 2018 (unaudited)	6 months ended 30 June 2017 (unaudited)
Interest income calculated using the effective interest method	16	20 009 123	22 493 540
Other interest income	16	2 286 440	1 297 211
Interest expense	16	(11 386 649)	(14 560 727)
Contributions to the deposit insurance system	16	(598 900)	(436 772)
Net interest income		**10 310 014**	**8 793 252**
Allowance for expected credit losses		(3 669 549)	(5 203 133)
Net interest income after allowance for expected credit losses		**6 640 465**	**3 590 119**
Net losses from trading securities		(714 623)	(155 134)
Net gains from investment securities		480 428	303 533
Net gains from trading in foreign currencies, foreign exchange revaluation and from transactions with derivatives		2 081 300	3 923 709
Fee and commission income		3 407 564	3 105 233
Fee and commission expense		(681 172)	(671 498)
Allowance for credit related commitments and non-financial liabilities		(112 975)	(425 486)
Net gains from revaluation of loans measured at fair value through profit or loss		382 234	-
Recovery of impairment allowance on long-term assets held for sale and investment property		64 303	-
Recovery of allowance for expected credit losses from investment securities measured at fair value through other comprehensive income		53 022	-
Other net operating income		590 255	450 072
Administrative and other operating expenses:			
- staff costs		(3 276 361)	(2 980 706)
- costs related to premises and equipment		(860 367)	(799 387)
- other administrative and operating expenses		(2 540 103)	(2 206 111)
Profit before tax		**5 513 970**	**4 134 344**
Income tax expense		(1 124 018)	(810 180)
Profit for the period attributable to:			
Shareholders of the Bank		4 344 838	3 295 241
Non-controlling interest		45 114	28 923
Profit for the period		**4 389 952**	**3 324 164**

(in thousands of Russian roubles)	Note	6 months ended 30 June 2018 (unaudited)	6 months ended 30 June 2017 (unaudited)
Other comprehensive loss			
Items of comprehensive loss that are or will be reclassified subsequently to profit or loss			
Revaluation result and allowance for expected credit losses from investment securities measured at fair value through other comprehensive income transferred to profit or loss upon disposal		(533 450)	(303 533)
Net result from revaluation of investment securities measured at fair value through other comprehensive income		252 373	130 826
Deferred income tax recognised in equity related to components of other comprehensive income		45 611	34 541
Exchange differences on translation		(2 124)	(1 339)
Other comprehensive loss for the period after tax		**(237 590)**	**(139 505)**
Total comprehensive income for the period attributable to:			
Shareholders of the Bank		4 107 248	3 155 736
Non-controlling interest		45 114	28 923
Total comprehensive income for the period		**4 152 362**	**3 184 659**
Basic and diluted earnings per share (in Russian roubles per share)	17	**8.69**	**7.49**

A.V. Savelyev
Chairman of the Management Board

N.G. Tomilina
Chief Accountant

(in thousands of Russian roubles)	Note	Share capital	Share premium	Revaluation reserve for premises and equipment	Revaluation reserve for investment securities	Foreign currency translation reserve	Retained earnings	Total equity attributable to the shareholders of the Bank	Non-controlling interest	Total equity
Balance as at 1 January 2017		**3 721 734**	**21 393 878**	**3 820 496**	**1 793 138**	**-**	**30 139 720**	**60 868 966**	**-**	**60 868 966**
Other comprehensive loss recognised directly in equity (unaudited)		-	-	(4 376)	(138 166)	(1 339)	4 376	**(139 505)**	-	**(139 505)**
Profit for the period (unaudited)		-	-	-	-	-	3 295 241	**3 295 241**	28 923	**3 324 164**
Total comprehensive income for 6 months of 2017 (unaudited)		**-**	**-**	**(4 376)**	**(138 166)**	**(1 339)**	**3 299 617**	**3 155 736**	**28 923**	**3 184 659**
Dividends declared (unaudited)										
- ordinary shares	18	-	-	-	-	-	(461 532)	**(461 532)**	-	**(461 532)**
- preference shares	18	-	-	-	-	-	(2 211)	**(2 211)**	-	**(2 211)**
Acquisition of a subsidiary		-	-	-	-	-	-	**-**	461 776	**461 776**
Balance as at 30 June 2017 (unaudited)		**3 721 734**	**21 393 878**	**3 816 120**	**1 654 972**	**(1 339)**	**32 975 594**	**63 560 959**	**490 699**	**64 051 658**

(in thousands of Russian roubles)	Note	Share capital	Share premium	Revaluation reserve for premises and equipment	Revaluation reserve for investment securities	Foreign currency translation reserve	Retained earnings	Total equity attributable to the shareholders of the Bank	Non-controlling interest	Total equity
Balance as at 31 December 2017		**3 781 734**	**24 513 878**	**3 651 455**	**1 264 691**	**(1 451)**	**37 109 430**	**70 319 737**	**590 392**	**70 910 129**
Effect of transition to IFRS 9 (unaudited)	5	-	-	-	157 527	-	(2 331 493)	(2 173 966)	-	(2 173 966)
Restated balance as at 1 January 2018 after transition to IFRS 9		**3 781 734**	**24 513 878**	**3 651 455**	**1 422 218**	**(1 451)**	**34 777 937**	**68 145 771**	**590 392**	**68 736 163**
Other comprehensive loss recognised directly in equity (unaudited)		-	-	-	(235 466)	(2 124)	-	**(237 590)**	-	**(237 590)**
Profit for the period (unaudited)		-	-	-	-	-	4 344 838	**4 344 838**	45 114	**4 389 952**
Total comprehensive income for 6 months of 2018 (unaudited)		**-**	**-**	**-**	**(235 466)**	**(2 124)**	**4 344 838**	**4 107 248**	**45 114**	**4 152 362**
Dividends declared (unaudited)										
- ordinary shares	18	-	-	-	-	-	(809 277)	**(809 277)**	-	**(809 277)**
- preference shares	18	-	-	-	-	-	(2 211)	**(2 211)**	-	**(2 211)**
Sale of a subsidiary		-	-	-	-	-	-	**-**	(46 491)	**(46 491)**
Balance as at 30 June 2018 (unaudited)		**3 781 734**	**24 513 878**	**3 651 455**	**1 186 752**	**(3 575)**	**38 311 287**	**71 441 531**	**589 015**	**72 030 546**

A.V. Savelyev
Chairman of the Management Board

N.G. Tomilina
Chief Accountant

(in thousands of Russian roubles)	Note	6 months ended 30 June 2018 (unaudited)	6 months ended 30 June 2017 (unaudited)
Cash flows from operating activities			
Interest received on loans and correspondent accounts		15 612 023	17 343 038
Interest received on securities		3 979 362	3 681 370
Interest received on reverse sale and repurchase agreements		1 499 590	1 993 329
Interest paid on due to banks		(4 490 673)	(5 875 599)
Interest paid on customer accounts		(6 502 753)	(7 850 446)
Contributions to the deposit insurance system		(598 900)	(436 772)
Interest paid on other debt securities issued		(135 267)	(123 995)
Net losses from securities trading		(315 418)	(434 463)
Net (losses) gains from trading in foreign currencies and from transactions with derivatives		(1 842 205)	5 260 558
Fees and commissions received		3 419 021	3 100 008
Fees and commissions paid		(681 172)	(671 498)
Other operating income		726 206	449 453
Staff costs		(3 339 465)	(3 173 243)
Premises and equipment costs		(369 054)	(205 004)
Administrative and other operating expenses		(2 655 078)	(2 054 127)
Income tax paid		88 084	(589 983)
Cash flows from operating activities before changes in operating assets and liabilities		**4 394 301**	**10 412 626**
Changes in operating assets and liabilities			
Net (increase) decrease in mandatory reserve deposits with the Central Bank of the Russian Federation		(181 167)	336 249
Net increase in trading securities		(46 317 256)	(18 422 906)
Net decrease under reverse sale and repurchase agreements		34 247 476	16 054 572
Net decrease in due from banks		11 090 392	22 017 909
Net decrease (increase) in loans and advances to customers		1 658 085	(1 248 721)
Net increase in other assets		(114 571)	(489 482)
Net (decrease) increase in due to banks		(168 315)	16 722 961
Net decrease in customer accounts		(3 613 272)	(34 266 274)
Net (decrease) increase in financial liabilities at fair value		(7 630 568)	2 429 026
Net decrease in other debt securities issued		(330 396)	(547 038)
Net decrease in other liabilities		(1 435 914)	(887 187)
Net cash (used in) from operating activities		**(8 401 205)**	**12 111 735**
Cash flows from investing activities			
Acquisition of premises and equipment and intangible assets		(369 107)	(368 734)
Proceeds from disposal of premises and equipment and intangible assets		9 998	1 068
Net decrease in investment securities		10 917 717	17 380 985
Net proceeds from disposal of investment securities		414 058	303 533
Proceeds from sale of investment property		820 611	-
Proceeds from sale of long-term assets held-for-sale		-	313 542
Net cash paid for acquisition of a subsidiary		-	(359 724)
Proceeds from sale of a subsidiary		17 949	-
Net cash paid for acquisition of associates		-	(211 379)
Dividends received		1 591	1 240
Net cash from investing activities		**11 812 817**	**17 060 531**

(in thousands of Russian roubles)	Note	6 months ended 30 June 2018 (unaudited)	6 months ended 30 June 2017 (unaudited)
Cash flows from financing activities			
Repayment of other borrowed funds		(444 556)	(295 711)
Redemption of bonds issued		(854 599)	(4 151 173)
Interest paid on bonds issued		(470 691)	(537 157)
Interest paid on other borrowed funds		(51 620)	(133 118)
Dividends paid	18	(808 748)	(463 004)
Net cash used in financing activities		**(2 630 214)**	**(5 580 163)**
Effects of exchange rate changes on cash and cash equivalents		**772 417**	**2 811 361**
Net increase in cash and cash equivalents		**1 553 815**	**26 403 464**
Cash and cash equivalents at the beginning of the period		39 198 510	33 881 204
Cash and cash equivalents at the end of the period		**40 752 325**	**60 284 668**

A.V. Savelyev
Chairman of the Management Board

N.G. Tomilina
Chief Accountant

1 Background

This condensed consolidated interim financial information for the six-month period ended 30 June 2018 for PJSC “Bank “Saint Petersburg” (the “Bank”) and its subsidiaries, together referred to as the “Group” or PJSC “Bank “Saint Petersburg” Group is prepared in accordance with International Financial Reporting Standards.

The Bank was formed in 1990 as an open joint stock company under the Laws of the Russian Federation as a result of the corporatization of the former Leningrad regional office of Zhilsotsbank. In 2014 the Bank was reorganised from Open Joint-Stock Company “Bank “Saint Petersburg” to Public Joint-Stock Company “Bank “Saint Petersburg” following the decision made at the extraordinary General Shareholders' Meeting.

As at 30 June 2018, management of the Bank controls 50.64% (unaudited) of the ordinary shares of the Bank (31 December 2017: 50.64%), of which: 24.95% (unaudited) of the Bank’s ordinary shares are controlled by Mr. A.V. Savelyev (31 December 2017: 24.95%), 25.69% (unaudited) are controlled by the management of the Bank, including 25.53% (unaudited) of the Bank’s ordinary shares controlled by "Vernye Druzya” Management Company”, LLC (31 December 2017: 25.69% were controlled by management of the Bank, including 25.53% of the ordinary shares of the Bank controlled by “Vernye Druzya“ Management Company”, LLC). NOROYIA ASSETS LIMITED, ZERILOD HOLDINGS LIMITED and CARISTAS LIMITED companies own 26.58% (unaudited) of the share capital of LLC "Vernye Druzya" Management Company” each (31 December 2017: NOROYIA ASSETS LIMITED, ZERILOD HOLDINGS LIMITED and CARISTAS LIMITED owned 26.58% of the share capital of LLC "Vernye Druzya” Management Company” each).

Mrs O.A. Savelyeva owns indirectly 19.95% (unaudited) in LLC “Vernye Druzya” Management Company” and has a perpetual option to purchase a 100% interest in NOROYIA ASSETS LIMITED, ZERILOD HOLDINGS LIMITED, CARISTAS LIMITED companies (31 December 2017: Mrs. O.A. Savelyeva owned indirectly 19.95% in LLC “Vernye Druzya” Management Company” and had a perpetual option to purchase a 100% interest in the share capital of NOROYIA ASSETS LIMITED, ZERILOD HOLDINGS LIMITED, CARISTAS LIMITED companies). The ultimate owners of NOROYIA ASSETS LIMITED, ZERILOD HOLDINGS LIMITED, CARISTAS LIMITED are the following representatives of the Bank’s Management: K.B. Mironova, P.V. Filimonenok, V.G. Reutov (31 December 2017: the ultimate owners of NOROYIA ASSETS LIMITED, ZERILOD HOLDINGS LIMITED, CARISTAS LIMITED were the following representatives of the Bank’s Management: K.B. Mironova, P.V. Filimonenok, V.G. Reutov).

The remaining ordinary shares of the Bank are owned as follows: 6.66% (unaudited) of the ordinary shares are owned by East Capital Group (31 December 2017: 6.69%), 4.83% (unaudited) of the ordinary shares are owned by the EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD) (31 December 2017: 4.83%).

The remaining 37.87% (unaudited) of the ordinary shares are widely held (31 December 2017: 37.84%).

Principal activity. The Bank’s principal business activity is commercial banking operations within the Russian Federation. The Bank has been operating under a general banking license issued by the Central Bank of the Russian Federation (the “CBRF”) since 1997. The Bank takes part in the state deposit insurance system introduced by Federal Law No.177-FZ dated 23 December 2003 *On Retail Deposit Insurance in the Russian Federation*. The state deposit insurance system guarantees payment in the amount of 100% of total deposits placed with the bank, but limited to RUR 1 400 000, in the event the bank’s license is revoked or the CBRF imposes a moratorium on payments.

As at 30 June 2018, the Bank had 4 branches within the Russian Federation: 3 branches in the North-West region of Russia and 1 branch in Moscow, 62 outlets and 1 representative office in Novosibirsk (unaudited) (31 December 2017: 4 branches within the Russian Federation; 3 branches in the North-West region of Russia and 1 branch in Moscow, 63 outlets).

Registered address and place of business. The Bank’s registered address and place of business is: 64A Malookhtinskiy prospekt, Saint-Petersburg, Russia 195112.

Presentation currency of the condensed consolidated interim financial information. This condensed consolidated interim financial information is presented in thousands of Russian roubles (RUR thousand).

2 Operating Environment of the Group

Russian Federation. In the first half of 2018 Russian economy was characterised by the recovery of economic activity, enhancement of positive processes in manufacturing industry. At the same time, investments into capital increased slower than expected during the first quarter of 2018, and a decrease in construction works volume was observed. Investment and production activity slightly improved in the second quarter. Based on the Rosstat quarterly data at the end of the first half of 2018 the growth of Russian GDP may amount to 1.5-1.6%.

Inflation growth rate continued to decrease even after a significant devaluation of the Russian rouble due to the sanctions imposed by the U.S. on Russia in April. High crop yield together with high previous year base contributed to the decrease of inflation from 2.5% year-on-year as at the end of 2017 to 2.3% in June 2018. In the first half of 2018 the CBRF began a gradual transition from a "moderately tight" to "neutral" monetary policy. The key interest rate was decreased from 7.75% at the end of 2017 to 7.25% in June 2018. However, due to the planned increase of VAT in 2019, the CBRF intends to keep a slight tightness of its monetary policy in order to limit an unfavourable effect of fiscal measures on prices growth rate in Russia.

The sanctions imposed by the U.S. on Russian companies and individuals in April 2018 have contributed to the reduction of foreign investments into Russian assets, which resulted in a capital outflow from the financial account of the balance of payment and devaluation of Russian rouble. However local market players' compensating demand has been observed, supporting FLB (federal loan bonds) prices. It is expected that under the conditions of liquidity surplus this mechanism will remain even in case of further outflow of non-residents from Russia's sovereign debt. Further downward pressure on the Russian rouble rate was caused by the overall trend of a decreasing appetite for developing countries assets.

The Ministry of Finance of the Russian Federation remains a significant player on foreign exchange market. In order to reduce the dependence of budget income from changes in oil prices the Ministry of Finance developed a budgetary rule under which the Bank of Russia shall buy foreign currency in favour of the Ministry amounting to additional oil and gas income of the federal budget in case URALS oil price exceeds 40.8 dollars per barrel. In the first half of 2018 the Ministry bought foreign currency amounting to RUR 1 690.9 billion (around U.S. dollar 28.3 billion), thus significantly influencing the Russian rouble rate.

The U.S. dollar was within 55.7-64.1 rouble/U.S. dollar range in the first quarter, the average URALS oil price amounted to 69.5 dollars per barrel. Owing to oil prices growth the MOEX index increased by 8.8% in the first half of 2018, with the RTS index remaining almost the same due to the Russian rouble devaluation.

The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. In addition, the recent contraction in the capital and credit markets have further increased the level of economic uncertainty. In general, the current economic environment the Group operates in is characterised by significant growth of risks of different nature and general uncertainty bounding the strategic horizon for market participants and aggregated risk appetite.

The accompanied condensed consolidated interim financial information reflects management's assessment of the possible impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

Management of the Group believes that it makes all the necessary efforts to support the economic stability of the Group in the current environment.

3 Basis of Preparation and Significant Accounting Policies

Basis of preparation. As permitted by IAS 34 *Interim Financial Reporting*, an entity may decide to provide less information at interim dates as compared to its annual financial statements. This condensed consolidated interim financial information is prepared in accordance with IAS 34. The accounting policies and calculation methods applied in the preparation of this condensed consolidated interim financial information are consistent with those disclosed in the annual consolidated financial statements of the Group for the year ended 31 December 2017, except for changes in the presentation of comparative information regarding the insurance payments to the Deposit Insurance Agency using a separate line in the interest income part of the statement of comprehensive income and the application of new IFRS 9 and IFRS 15 standards. The condensed consolidated interim financial information of the Group does not contain all the Notes as required for a full set of consolidated financial statements. New significant accounting policies applied by the Group since 1 January 2018 are described below.

The preparation of this condensed consolidated interim financial information in conformity with IAS 34 requires management of the Group to make estimates and exercise professional judgement. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to this condensed consolidated interim financial information are disclosed in Note 4.

This condensed consolidated interim financial information is prepared under the historical cost accounting, with exception on initial recognition of financial instruments at fair value and revaluation of premises, trading securities, investment securities and derivative financial instruments measured at fair value.

The Group’s operations are not of a seasonal or cyclical nature.

As at 30 June 2018, the official exchange rates used for translating foreign currency balances are USD 1 = RUR 62.7565 and Euro 1 = RUR 72.9921 (31 December 2017: 57.6002 RUR/USD and 68.8668 RUR/EUR).

Changes in accounting policy related to IFRS 9 Financial instruments.

Effective interest rate. Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument precisely to:

- gross carrying amount of the financial asset; or
- amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments that are not credit-impaired assets the Group assesses future cash flows taking into account all contractual terms of this financial instrument but without considering expected credit losses. For credit-impaired financial assets the effective interest rate adjusted for credit risk is calculated using the amount of expected future cash flows including expected credit losses.

The effective interest rate calculation includes transaction costs as well as fees and charges paid or received that form an integral part of the effective interest rate. Transaction costs include additional expenses directly attributable to the acquisition or issue of the financial asset or liability.

Amortised cost and gross carrying amount. Amortised cost of a financial asset or liability is the value of the financial asset or liability at initial recognition less any principal repayments, plus or minus accumulated depreciation of the difference between the initial amount and payable amount at maturity calculated using the effective interest rate method and, with regard to financial assets, adjusted for estimated expected credit loss allowance (or impairment allowance before 1 January 2018).

Gross carrying amount of a financial asset measured at amortised cost is the amortised cost of the financial asset before adjustment for the amount of expected credit loss allowance.

***Interest income and expenses calculation*.** When calculating interest income and expenses the effective interest rate is applied to the amount of the asset gross carrying amount (when the asset is not credit-impaired) or amortised cost of the liability.

However, for financial assets that became credit-impaired subsequent to initial recognition, interest income is calculated through applying the effective interest rate to the amortised cost of the financial assets. If the financial asset is no longer credit-impaired, then the calculation of interest income reverts to the gross carrying amount.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Credit-Impaired Financial Assets.

Presentation of information. Interest income and expenses presented in the condensed consolidated statement of profit or loss and other comprehensive income include:

- interest income and expenses on financial assets and financial liabilities measured at amortised cost calculated using the effective interest method;
- interest income on debt instruments measured at fair value through other comprehensive income (FVOCI) calculated on an effective interest basis;
- interest income on non-derivative debt financial instruments measured at fair value through profit or loss (FVTPL) is presented separately as "Other interest income". It is measured using the effective interest method, excluding transaction costs.

Classification of financial instruments. From 1 January 2018, at initial recognition a financial asset is classified as measured at amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL based on the Group's assessment:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- on specified dates its contractual terms give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL based on the Group's assessment:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

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 at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

For debt financial assets measured at FVOCI, gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest income calculated using the effective interest rate method;
- expected credit losses (ECL) and reversal; and
- foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the fair value of the investment in other comprehensive income. This election is made on an investment-by-investment basis.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in other comprehensive income.

Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

All other financial assets are classified as measured at FVTPL.

Business model assessment. The Group makes an assessment of the objective of a business model in which an 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 by the Group includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest income, 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);
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its 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.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest. 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 on the outstanding principal amount (SPPI criterion), the Group considers the contractual terms of the instrument. This includes 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;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements);
- features that modify consideration for the time value of money - e.g. periodic reset of interest rates.

The Group holds a portfolio of long-term fixed rate loans, for which the Group has the option to revise the interest rate following the change in the key rate set by the CBR. Borrowers have an option to either accept the revised rate or repay the loan at face value without paying significant penalties. The Group has determined that contractual cash flows of these loans are solely payments of principal and interest because this option leads to the change of the interest rate in a way that is the consideration for the time value of money, credit risk, other basic lending risks and costs associated with the outstanding principal amount. Instead, the Group considers these loans as in essence floating rate loans.

Reclassification of financial instruments. Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Such changes are expected to be very infrequent. Such changes are determined by the Group's senior management as a result of external or internal changes and must be significant to the Group's operations and demonstrable to external parties. Accordingly, a change in the Group's business model will occur only when the Group either begins or ceases to perform an activity that is significant to its operations; for example, when the Group has acquired, disposed of or terminated a business line.

Financial liabilities are not reclassified subsequent to their initial recognition.

Modification of financial assets and financial liabilities. If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value. Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Group due to changes in the CBR key rate, if the loan contract entitles the Group to do so.

The Group performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Group assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In making this evaluation the Group analogises to the guidance in IFRS 9 on the derecognition of financial liabilities.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original (initial) effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method.

For fixed-rate loans, where the borrower has an option to prepay the loan at par without significant penalty, the Group treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

As part of credit risk management activities, the Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities'). If the Group plans to modify a financial asset in a way that would result in forgiveness of part of the existing contractual cash flows, then a portion of the asset is written off before the modification takes place (Note 5). This is likely to result in the remaining contractual cash flows that are still recognised as the original financial asset at the point of modification to be similar to the new modified contractual cash flows. If based on quantitative assessment the Group concludes that modification of financial assets modified as part of the Group's forbearance policy is not substantial, the Group performs qualitative evaluation of whether the modification is substantial.

Impairment. The Group recognises an allowance for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Group recognises estimated ECL allowances at an amount equal to lifetime ECL, except in the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition (Note 4).

Expected credit loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the generally accepted definition of ‘investment-grade’.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL. ECL are a default probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date*: as 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);
- *financial assets that are credit-impaired at the reporting date*: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments*: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- *financial guarantee contracts*: the present value of the expected payments to reimburse the holder’s credit losses less any amounts that the Group expects to recover.

The calculation of expected credit losses is performed on an individual basis (for legal entities) or collective basis (for individuals). In order to calculate ECL the Group assesses the probability of default, exposure at default and loss given default. In case of an individual calculation, the assessment of the probability of default, exposure at default and loss given default is performed individually at each financial instrument level. In case of a collective calculation, the assessment of the probability of default and loss given default is similar for all financial instruments classified as the same class and at the same impairment stage, the assessment of exposure at default is performed at the financial instrument level.

Credit-impaired financial assets. At each reporting date, the Group assesses whether financial assets measured at amortised cost and debt financial assets measured at FVOCI are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events have a negative impact on the expected future cash flows from the financial asset.

Evidence that a financial asset is credit-impaired includes factors stated in Note 4.

A loan that has been renegotiated due to a deterioration in the borrower’s creditworthiness is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt (including bonds) is credit-impaired, the Group considers the following factors.

- The market’s assessment of creditworthiness as reflected in the bond yields.
- The rating agencies’ assessments of creditworthiness.
- The country’s ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Write-offs. Loans and debt securities are written off (either partially or in full) when there is no realistic expectations of their recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Loans and advances to customers. 'Loans and advances to customers' caption in the condensed consolidated interim statement of financial position includes:

- loans and advances to customers measured at amortised cost, they are initially measured at fair value plus incremental direct transactional costs and subsequently at their amortised cost using the effective interest method;
- loans and advances to customers mandatorily measured at FVTPL due to the non-conformance with SPPI criterion, with changes recognised immediately in profit or loss.

4 Significant Accounting Estimates and Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts of assets and liabilities recognised in the condensed consolidated interim financial information. Estimates and judgments are continually reassessed and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes professional judgments and estimates in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognised in the condensed consolidated interim financial information and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Expected credit losses. Amounts of allowance for expected credit losses are presented in the condensed consolidated interim statement of financial position in the following way:

- *financial assets measured at amortised cost*: as a decrease of the gross carrying amount of such assets;
- *loan commitments and financial guarantee agreements:* generally, as a provision;
- *debt instruments measured at FVOCI:* an expected credit loss allowance is not recognised in the condensed consolidated interim statement of financial position since the carrying amount of such assets is their fair value. However, the amount of the expected credit loss allowance is disclosed and recognised in the revaluation reserve for changes in fair value.

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

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

These parameters will be derived from internally developed statistical models.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of financial instruments.

The Group estimates LGD parameters based on the history of recovery rates with regard to impaired financial assets. The LGD models considers the structure of the financial instruments, types of counterparties and collateral.

With regard to financial assets originating during transactions in financial markets international rating agencies' statistics is used to assess PD and LGD.

EAD represents the expected exposure in the event of default. The Group will derive the EAD from the current exposure as at the reporting date considering expected changes to the current amount allowed under the contract, including amortisation. The EAD of a financial asset will be the gross carrying amount. For lending commitments and financial guarantees, the EAD will consider the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on historical observations and forward-looking forecasts.

The Group assumes that probability of default forecasts and amounts of loss given default can differ from historical figures. Due to this the Group adjusts historical PD and LGD figures for the most likely macroeconomic scenario. The basic scenario of GDP change and volume of credits provided to the economy published by the CBRF as part of its monetary policy implementation is considered such scenario.

The Group allocates each corporate client to a credit risk rating based on variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk ratings are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the type of borrower.

Credit risk ratings are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates – e.g. the difference in the risk of default between credit risk ratings 1 and 2 is smaller than the difference between credit risk rating 2 and 3.

A credit risk rating for each corporate client is allocated at initial recognition. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk rating as compared to that assigned on initial recognition.

For financial assets of individuals the risk estimate is revised only if information about overdue amounts appears or when the customer requests renegotiation of loan agreements.

The monitoring usually includes the analysis of the following data.

Factors influencing the credit risk rating of a financial instrument and accounted for when determining a significant increase of credit risk with regard to corporate clients	**Factors accounted for when determining a significant increase of credit risk with regard to corporate and individual clients.**
• Data obtained as a result of a regular analysis of information about borrowers – for example, audited financial statements, management statements, budgets, forecasts and plans	• Information about payments, including information about the status of an overdue amount
• Data of credit rating agencies, publications in press, information about changes of external credit grades	• Requests for the renegotiation of loan agreements and satisfaction of such requests
• Actual and expected significant changes in political, regulatory and technological environment of the borrower or its business.	• Current and expected changes of financial, economic conditions and business environment.

For financial assets originated from transactions in financial markets average credit risk rating issued by international rating agencies for several subsequent periods are used.

The Group considers that the credit risk related to a financial instrument has increased significantly since its initial recognition if, based on modelling methods used by the Group, it has been determined that the PD figure for the remaining life increased more than 2.5 times since initial recognition. When assessing for a significant increase of credit risk remaining lifetime expected credit losses are adjusted for the change of repayment term.

Grades of credit risk. To assess expected credit losses the Group classifies financial instruments into one of the following stages depending on the change of the credit quality of a financial assets since its initial recognition:

- Stage 1. Financial instruments with no significant increase of credit risk after their initial recognition. The amount of impairment is determined as the amount of expected credit losses over 12 months.
- Stage 2. Financial instruments with significant increase of credit risk after their initial recognition but with no impairment indicators. The amount of impairment is determined as the amount of expected credit losses over the lifetime of the instrument.
- Stage 3. Impaired financial instruments. For impaired financial instruments of corporate clients expected credit losses are measured on an individual basis based on expected cash flows from debts collection. For impaired financial instruments of individual clients expected credit losses are measured based on expected cash flows as per historical figures of losses given default depending on the term of delinquency.

Analysis for indicators of a significant increase of credit risk and impairment of loans and credit related commitments is performed at each reporting date.

- if indicators of a significant increase in credit risk are identified with no indicators of impairment, loans and credit related commitments classified into Stage 1 are transferred into Stage 2;
- if indicators of impairment are identified, loans and credit related commitments classified into Stage 1 are transferred into Stage 3;
- if indicators of impairment are identified, loans and credit related commitments classified into Stage 2 are transferred into Stage 3;
- if indicators of impairment disappear, loans and credit related commitments are transferred from Stage 3 into Stage 2;
- if indicators of a significant increase in credit risk disappear, loans and credit related commitments are transferred from Stage 2 into Stage 1;
- in exceptional cases, when indicators of impairment disappear and there are no indicators of a significant increase in credit risk, loans and credit related commitments can be transferred from Stage 3 into Stage 1;

For the loans that were impaired at initial recognition the expected credit loss allowance is measured based on expected credit losses over the lifetime of the loan.

Significant increase in credit risk. Occurrence of at least one of the following events is an indicator of a significant increase in credit risk:

- delinquency by 31 to 90 days;
- significant decrease of the external or internal rating of a corporate borrower since the initial recognition of a financial instrument;
- modification of a financial instrument in the form of the prolongation for the principal amount or the grace period for interest payments performed due to financial distress of the client;
- delinquency by 6 to 30 days for interbank loans.

Occurrence of at least one of the following events is an indicator of impairment:

- delinquency by 90 or more days;
- bankruptcy or liquidation of the borrower;
- modification in the form of a decrease of the interest rate to a level significantly lower compared to the market one due to financial distress of the client;
- other indicators of financial difficulties of the borrower and an actual threat of non-fulfillment or improper fulfillment by the borrower of its obligations towards the Bank;
- delinquency by 30 or more days for interbank loans.

Default. Default is a fact of recognition financial asset as impaired.

Revaluation of premises. The fair values of the Group's premises are determined by using valuation methods. The base for the valuation is the market value. Market values of premises are estimated by an independent appraiser, who holds a recognised and relevant professional qualification and who has recent experience in valuation of premises of similar location and category. The market value was assessed based on the direct comparison of the assessed item with other premises that were sold or are offered for sale. If, according to the valuation results, the fair value of the Group's premises changes by 10%, their carrying amount as at 30 June 2018 will change by RUR 1 239 413 thousand (before deferred tax) (unaudited) (31 December 2017: by RUR 1 233 449 thousand).

5 Transition to New or Revised Standards or Interpretations

A number of new amendments to standards and interpretations came into force starting from 1 January 2018. The Group adopted these amendments and interpretations after they became effective. These changes do not have a significant impact on the condensed consolidated interim financial information of the Group.

No new standards and interpretations that are mandatory for annual reporting periods starting after 1 January 2018 have been issued after the Group has presented its recent annual consolidated financial statements, except for standards and interpretations disclosed in the annual consolidated financial statements of the Group.

IFRS 9 Financial Instruments. The Group adopted IFRS 9 *Financial instruments* issued in July 2014 on 1 January 2018 when the standard came into force. IFRS 9 requirements significantly differ from those of IAS 39 *Financial instruments: Recognition and Measurement*. The new standard introduces fundamental changes to financial assets accounting and certain features of financial liabilities accounting.

The main changes in the accounting policy of the Group attributed to the adoption of IFRS 9 are as follows:

- Financial assets must be classified into three categories: measured subsequently at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).
- The Classification of debt instruments depends on the entity's business model for financial assets management and on whether the contractual cash flows include solely payments of principal and interest (SPPI). If a debt instrument is held in order to receive contractual cash flows, it can be measured at amortised cost if it meets the SPPI criterion. Debt instruments that meet the SPPI criterion and are held as part of a portfolio in order to both collect cash flows from assets and the sale of assets are classified into the category of carried at FVOCI. Financial assets that do not contain cash flows meeting the SPPI criterion must be measured at FVTPL (for example, derivatives). Embedded derivatives are not separated from financial assets and instead included into the category of financial assets when assessing for whether SPPI criterion is met. Methods of classifying financial assets under IFRS 9 are presented below in this Note.
- Investments into equity instruments are always measured at fair value. However, the management can irrevocably decide to recognise changes of fair value in other comprehensive income if the relevant instrument is not classified as held for trading. If an equity instrument is classified as held for trading, changes of fair value are presented in profit or loss.
- Most of IAS 39 requirements with regard to the classification and measurement of financial liabilities were included into IFRS 9 without changes. The main difference is the requirement that the entity must disclose the effect of changes in the credit risk of financial liabilities classified as measured at FVTPL in other comprehensive income. Methods of classifying financial liabilities under IFRS 9 are presented below in this Note.

- IFRS 9 replaces the 'incurred loss' model with an 'expected credit loss' model (ECL). The model introduces a "three stage" approach based on the change of financial assets credit quality after their initial recognition. In practice these new rules require the Group to recognise an allowance equal to 12-months expected credit losses (or lifetime expected credit losses for trade receivables) upon initial recognition of financial assets that are not credit-impaired. In those cases when there has been a significant increase in credit risk impairment is measured using lifetime credit losses. The new impairment model is also applied to certain credit-related commitments and financial guarantee contracts. Explanations of how the Group applies IFRS 9 impairment requirements are given in Note 4.

- Adjustments that allow a more accurate matching of accounting with risk management have been made to hedge accounting requirements. IFRS 9 includes an accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 or to adopt hedge accounting requirement of IFRS 9 as the standard currently does not explicitly address macro hedge accounting. The Group has no hedge transactions.

Transition to the new standard (IFRS 9). Changes in accounting policies resulting from the adoption of IFRS 9 were applied retrospectively, except as described below.

- Previous periods figures have not been restated. Differences between the carrying amount of financial assets and that of financial liabilities arising due to the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Thus, information for 6 months of 2017 and as at 31 December 2017 does not reflect the requirements of IFRS 9 and, consequently, is not comparable to the information presented for 2018 in accordance with IFRS 9.

- The following assessments have been performed based on facts and circumstances that existed as at the date of initial application.

    - The determination of the business model within which a financial asset is held;

    - A new classification and cancellation of previous classifications of certain financial assets and liabilities recognised at FVOCI;

    - The designation of certain investments in equity instruments not held for trading both as at FVOCI and FVTPL.

- For debt securities with low credit risk as at the date of initial application of IFRS 9 the Group determined that the credit risk on the asset has not increased significantly since initial recognition. A financial instrument has a low credit risk if the average credit grade of the borrower is BBB- and higher (as per Moody's, S&P and Fitch ratings).

Classification categories of financial assets and liabilities in accordance with IAS 39 and new classification categories in accordance with IFRS 9 as at 1 January 2018 are presented in the table below (unaudited).

(in thousands of Russian roubles)	**Original classification as per IAS 39**	**New classification as per IFRS 9**	**Original carrying amount as per IAS 39**	**Reclassi-fication**	**Change of the measure-ment base (ECL)**	**Change of the measure-ment base (other)**	**New carrying amount as per IFRS 9**
Financial assets							
Cash and cash equivalents	Loans and receivables	At amortised cost	39 198 510	-	0	-	39 198 510
Mandatory reserve deposits with the Central Bank of the Russian Federation	Loans and receivables	At amortised cost	3 020 485	-	-	-	3 020 485
Trading securities	Fair value through profit or loss	Fair value through profit or loss (mandatory)	17 372 259	-	-	-	17 372 259
Trading securities pledged under sale and repurchase agreements and loaned	Fair value through profit or loss	Fair value through profit or loss (mandatory)	47 111 694	-	-	-	47 111 694
Investment securities - debt securities	Available-for-sale	Fair value through other comprehensive income	21 711 087	-	-	-	21 711 087
Investment securities - equity securities	Available-for-sale	Fair value through other comprehensive income	-	520 707	-	-	520 707
Investment securities - equity securities	Available-for-sale	Fair value through profit or loss	801 687	(520 707)	-	-	280 980
Investment securities - debt securities pledged under sale and repurchase agreements and loaned	Available-for-sale	Fair value through other comprehensive income	26 437 945	-	-	-	26 437 945
Reverse sale and repurchase agreements	Loans and receivables	At amortised cost	67 809 093	-	-	-	67 809 093
Derivative financial assets	Fair value through profit or loss	Fair value through profit or loss (mandatory)	1 217 534	-	-		1 217 534
Due from banks	Loans and receivables	Amortised cost	34 939 256	-	(729)	-	34 938 257
Loans and advances to customers	Loans and receivables	Amortised cost	318 215 910	(879 766)	(1 283 347)	(1 453 826)	314 598 971
Loans and advances to customers	Loans and receivables	Fair value through profit or loss (mandatory)	-	879 766	-	-	879 766
Other financial assets	Loans and receivables	Amortised cost	1 579 673	-	-	-	1 579 673
Total financial assets			**579 415 133**	**-**	**(1 284 076)**	**(1 453 826)**	**576 677 231**

(in thousands of Russian roubles)	**Original classification as per IAS 39**	**New classification as per IFRS 9**	**Original carrying amount as per IAS 39**	**Reclassi-fication**	**Change of the measure-ment base (ECL)**	**Change of the measure-ment base (other)**	**New carrying amount as per IFRS 9**
Financial liabilities							
Due to banks	At amortised cost	Amortised cost	148 924 730	-	-	-	148 924 730
Customer accounts	At amortised cost	Amortised cost	352 972 148	-	-	-	352 972 148
Financial liabilities recognised at fair value	Fair value through profit or loss	Fair value through profit or loss (held for trading)	12 511 033	-	-	-	12 511 033
Derivative financial liabilities	Fair value through profit or loss	Fair value through profit or loss (held for trading)	1 661 351	-	-	-	1 661 351
Promissory notes and deposit certificates issued	At amortised cost	Amortised cost	7 253 345	-	-	-	7 253 345
Bonds issued	At amortised cost	Amortised cost	7 137 892	-	-	-	7 137 892
Other borrowed funds	At amortised cost	Amortised cost	1 903 744	-	-	-	1 903 744
Other financial liabilities:	At amortised cost	Amortised cost	1 303 955	-	18 937	-	1 322 892
Total financial liabilities			**533 668 198**	**-**	**18 937**	**-**	**533 687 135**

The accounting policy of the Group with regard to the classification of financial instruments in accordance with IFRS 9 is presented in Note 4. The application of this policy resulted in the reclassifications presented in the table above, namely:

Certain loans and advances to customers, mainly those that are managed by the Group’s corporate and investment business, are classified in accordance with IFRS 9 as mandatorily measured at fair value through profit or loss since contractual cash flows of these assets do not constitute only payments of the principal amount and interest.

Below are the reconciliation results of (unaudited):

- The allowance for financial assets impairment in accordance with IAS 39 and the provision for credit-related commitments and financial guarantees impairment in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets as at 31 December 2017; and
- opening amount of the expected credit losses allowance in accordance with IFRS 9 as at 1 January 2018

(in thousands of Russian roubles, unaudited)	As at 31 December 2017 (in accordance with IAS 39/IAS 37)	Change of the measurement base (ECL)	Partial write-off due to modification (bad debt collection)	Reclassification	As at 1 January 2018 (in accordance with IFRS 9)
Due from banks at amortised cost	-	729	-	-	729
Loans and advances to customers at amortised cost	39 494 532	1 283 347	(5 079 707)	(586 511)	35 111 661
Credit-related commitments	73 313	18 937	-	-	92 250
Investment securities available for sale in accordance with IAS 39 / Investment securities at FVOCI in accordance with IFRS 9	-	157 527	-	-	157 527

Below is the effect of transition to IFRS 9 on funds and retained earnings (unaudited):

(in thousands of Russian roubles)	Effect of transition to IFRS 9 as at 1 January 2018
Revaluation reserve for investment securities available for sale in accordance with IFRS 39 (as at 31 December 2017)	**1 264 691**
Recognition of ECL related to debt investment securities in accordance with IFRS 9 at FVOCI	157 527
Opening balance of the revaluation reserve for investment securities in accordance with IFRS 9 (as at 1 January 2018)	**1 422 218**
Retained earnings in accordance with IAS 39 (as at 31 December 2017)	**37 109 430**
Recognition of ECL and other estimates related to assets carried at amortised cost in accordance with IFRS 9	(2 756 839)
Recognition of deferred tax	582 873
Recognition of ECL related to debt investment securities at FVOCI in accordance with IFRS 9	(157 527)
Opening balance of retained earnings in accordance with IFRS 9 (as at 1 January 2018)	**34 777 937**

6 Trading Securities

(in thousands of Russian roubles)	30 June 2018 (unaudited)	31 December 2017
Bank of Russia bonds	47 125 830	-
Corporate bonds	8 685 696	9 853 721
Corporate Eurobonds	4 461 184	5 996 183
Federal loan bonds	178 072	95 068
Municipal bonds	165 016	181 186
Total debt securities	**60 615 798**	**16 126 158**
Corporate shares	106 290	1 246 101
Total trading securities	**60 722 088**	**17 372 259**

Debt trading securities of the Group are divided by the credit rating of the issuer assigned by rating agencies Moody's, S&P and Fitch into the following groups:

Group A - debt securities with credit rating of the issuer at least BBB-, according to S&P rating agency or equivalent rating of other agencies.

Group B - debt securities with credit rating of the issuer between BB- and BB+, according to S&P rating agency or equivalent rating of other agencies.

Group C - debt securities with credit rating of the issuer between B- and B+, according to S&P rating agency or equivalent rating of other agencies.

Group D - debt securities with credit rating of the issuer below B-, according to S&P rating agency or equivalent rating of other agencies or without credit rating.

Analysis by credit quality of debt trading securities outstanding as at 30 June 2018 is as follows (unaudited):

(in thousands of Russian roubles)	Bank of Russia bonds	Corporate bonds	Corporate Eurobonds	Federal loan bonds	Municipal bonds	Total
Not overdue or impaired						
Group A	47 125 830	6 703 617	-	178 072	-	54 007 519
Group B	-	1 948 181	4 293 287	-	148 182	6 389 650
Group C	-	33 898	-		12 872	46 770
Group D	-	-	167 897	-	3 962	171 859
Total debt trading securities	**47 125 830**	**8 685 696**	**4 461 184**	**178 072**	**165 016**	**60 615 798**

Analysis by credit quality of debt trading securities as at 31 December 2017 is as follows:

(in thousands of Russian roubles)	**Corporate bonds**	**Corporate Eurobonds**	**Municipal bonds**	**Federal loan bonds**	**Total**
Not overdue or impaired					
Group A	438 712	6 089	-	-	444 801
Group B	8 758 725	5 183 393	159 427	95 068	14 196 613
Group C	-	174 722	16 590	-	191 312
Group D	656 284	631 979	5 169	-	1 293 432
Total debt trading securities	**9 853 721**	**5 996 183**	**181 186**	**95 068**	**16 126 158**

The Bank is licensed by the Federal Agency of the Russian Federation for Financial Markets for trading in securities.

Maturity analyses of trading securities are disclosed in Note 20.

7 Securities Pledged under Sale and Repurchase Agreements and Loaned

(in thousands of Russian roubles)	**30 June 2018 (unaudited)**	**31 December 2017**
Debt trading securities pledged under sale and repurchase agreements and loaned		
Corporate bonds	30 057 119	19 528 814
Corporate Eurobonds	14 199 857	26 631 821
Bank of Russia bonds	7 801 240	-
Federal loan bonds	820 549	127 588
Total debt trading securities pledged under sale and repurchase agreements and loaned	**52 878 765**	**46 288 223**
Corporate shares	-	823 471
Total trading securities pledged under sale and repurchase agreements and loaned	**52 878 765**	**47 111 694**
Debt investment securities at fair value through other comprehensive income pledged under sale and repurchase agreements and loaned		
Corporate bonds	19 761 565	15 822 748
Corporate Eurobonds	4 382 837	10 351 581
Municipal bonds	4 045 974	-
Federal loan bonds	516 633	263 616
Total debt investment securities at fair value through other comprehensive income pledged under sale and repurchase agreements and loaned	**28 707 009**	**26 437 945**
Total securities pledged under sale and repurchase agreements and loaned	**81 585 774**	**73 549 639**

Analysis of debt trading securities pledged under sale and repurchase agreements and loaned as at 30 June 2018 by their credit quality is as follows (unaudited):

(in thousands of Russian roubles)	**Corporate bonds**	**Corporate Eurobonds**	**Bank of Russia bonds**	**Federal loan bonds**	**Total**
Debt trading securities pledged under sale and repurchase agreements and loaned					
Not overdue or impaired					
Group A	11 165 752	4 236 762	7 801 240	820 549	24 024 303
Group B	18 891 367	9 963 095	-	-	28 854 462
Total debt trading securities pledged under sale and repurchase agreements and loaned	**30 057 119**	**14 199 857**	**7 801 240**	**820 549**	**52 878 765**

Analysis of debt investment securities at fair value through other comprehensive income pledged under sale and repurchase agreements and loaned as at 30 June 2018 by their credit quality is as follows (unaudited):

(in thousands of Russian roubles)	12-month expected credit losses	Lifetime expected credit losses - non-impaired assets	Lifetime expected credit losses - impaired assets	Purchased or originated credit impaired assets	**Total**
Debt investment securities at fair value through other comprehensive income pledged under sale and repurchase agreements and loaned					
Group A	11 314 521	-	-	-	11 314 521
Group B	17 392 488	-	-	-	17 392 488
Total debt investment securities at fair value through other comprehensive income pledged under sale and repurchase agreements and loaned	**28 707 009**	**-**	**-**	**-**	**28 707 009**

Analysis of debt trading securities pledged under sale and repurchase agreements and loaned as at 31 December 2017 by their credit quality is as follows:

(in thousands of Russian roubles)	Corporate Eurobonds	Corporate bonds	Federal loan bonds	Total
Debt trading securities pledged under sale and repurchase agreements and loaned				
Not overdue or impaired				
Group A	1 057 833	418 179	-	1 476 012
Group B	24 408 598	18 392 002	127 588	42 928 188
Group D	1 165 390	718 633	-	1 884 023
Total debt trading securities pledged under sale and repurchase agreements and loaned	**26 631 821**	**19 528 814**	**127 588**	**46 288 223**
Debt investment securities available for sale pledged under sale and repurchase agreements and loaned				
Not overdue or impaired				
Group B	10 351 581	15 679 410	263 616	26 294 607
Group D	-	143 338	-	143 338
Total debt investment securities available for sale pledged under sale and repurchase agreements and loaned	**10 351 581**	**15 822 748**	**263 616**	**26 437 945**
Total debt securities pledged under sale and repurchase agreements and loaned	**36 983 402**	**35 351 562**	**391 204**	**72 726 168**

For definition of groups refer to Note 6.

Securities transferred or sold under sale and repurchase agreements are transferred to a third party as collateral for borrowed funds. These financial assets may be repledged or resold by counterparties in the absence of default by the Group, but the counterparty has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them.

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as the requirements determined by exchanges where the Group acts as an intermediary.

Maturity analyses of securities pledged under sale and repurchase agreements and loaned are disclosed in Note 20.

8 Reverse Sale and Repurchase Agreements

(in thousands of Russian roubles)	30 June 2018 (unaudited)	31 December 2017
Reverse sale and repurchase agreements with banks	22 265 793	61 863 324
Reverse sale and repurchase agreements with customers	11 797 867	5 945 769
Total reverse sale and repurchase agreements	**34 063 660**	**67 809 093**

As at 30 June 2018, reverse sale and repurchase agreements represent agreements with customers and banks that are secured by Federal loan bonds, corporate Eurobonds, corporate bonds and corporate shares (31 December 2017: Federal loan bonds, corporate Eurobonds, corporate bonds and corporate shares).

As at 30 June 2018, the fair value of securities that serve as collateral under reverse sale and repurchase agreements amounts to RUR 41 624 869 thousand (unaudited) (31 December 2017: RUR 78 652 603 thousand). In all cases the value of collateral under separate transactions equals or exceeds the amount due from the transaction.

Maturity analyses of reverse sale and repurchase agreements are disclosed in Note 20.

9 Due from Banks

(in thousands of Russian roubles)	**30 June 2018 (unaudited)**	**31 December 2017**
Term placements with banks	24 022 708	34 939 256
Allowance for expected credit losses	(47 756)	-
Total due from banks	**23 974 952**	**34 939 256**

The reconciliation of the amount of opening allowances for impairment of loans provided to banks recognised in accordance with IAS 39 and allowances for expected credit losses recognised in accordance with IFRS 9 is presented in Note 5.

Below is the analysis of changes in allowance for expected credit losses during 6 months ended 30 June 2018 (unaudited):

(in thousands of Russian roubles)	12-month ECLs	Lifetime expected credit losses - non-impaired assets	Lifetime expected credit losses - impaired assets	Purchased or originated credit impaired assets	For 6 months ended 30 June 2018	For 6 months ended 30 June 2017
Allowance for expected credit losses as at 1 January	**729**	**-**	**-**	**-**	**729**	**24 997**
New assets received or acquired	47 756	-	-	-	**47 756**	**-**
Net charge for /(recovery of) allowance for expected credit losses					**-**	**(2 499)**
Reversal of the allowance due to the repayment of loans	(729)	-	-	-	**(729)**	**-**
Total allowance as at 30 June	**47 756**	**-**	**-**	**-**	**47 756**	**22 498**

The table below contains the analysis by credit quality of amounts due from banks measured at amortised cost and the related allowances for expected credit losses as at 30 June 2018 (unaudited):

(in thousands of Russian roubles)	12-month ECLs	Lifetime expected credit losses - non-impaired assets	Lifetime expected credit losses - impaired assets	Purchased or originated credit impaired assets	**Total**
Group A	10 026 539	-	-	-	10 026 539
Group B	10 591 638	-	-	-	10 591 638
Group C	3 404 531	-	-	-	3 404 531
Total gross carrying value of due from banks	**24 022 708**	**-**	**-**	**-**	**24 022 708**
Expected credit losses allowance	**(47 756)**	**-**	**-**	**-**	**(47 746)**
Total due from banks	**23 974 952**	**-**	**-**	**-**	**23 974 952**

The table below contains the analysis by credit quality of term placements with banks as at 31 December 2017:

(in thousands of Russian roubles)	**Interbank loans and deposits**	**Total**
Group A	27 936 497	27 936 497
Group B	6 702 644	6 702 644
Group C	300 115	300 115
Total due from banks	**34 939 256**	**34 939 256**

Maturity analyses of amounts due from banks are disclosed in Note 20.

10 Loans and Advances to Customers

(in thousands of Russian roubles)	30 June 2018 (unaudited)	31 December 2017
Loans measured at amortised cost		
Loans to legal entities		
- loans to finance working capital	152 407 774	167 065 815
- investment loans	98 687 942	102 786 253
- loans to entities financed by the government	20 750 289	12 052 542
Loans to individuals		
- mortgage loans	56 607 791	54 066 689
- car loans	2 395 428	2 101 129
- consumer loans to VIP clients	5 134 111	4 634 127
- other consumer loans	17 840 059	15 003 887
Allowance for expected credit losses	(36 925 440)	(39 494 532)
Loans to legal entities measured at FVTPL	1 262 000	n/a
Total loans and advances to customers	**318 159 954**	**318 215 910**

The reconciliation of the amount of opening allowances for impairment of loans and advances to customers recognised in accordance with IAS 39 and allowances for expected credit losses recognised in accordance with IFRS 9 is presented in Note 5.

Below is the analysis of changes in allowance for expected credit losses during 6 months ended 30 June 2018 (unaudited) and 6 months ended 30 June 2017 (unaudited):

(in thousands of Russian roubles)	12-month ECLs	Lifetime expected credit losses - non-impaired assets	Lifetime expected credit losses - impaired assets	Purchased or originated credit impaired assets	For 6 months ended 30 June 2018	For 6 months ended 30 June 2017
Allowance for expected credit losses as at 1 January	**6 042 576**	**4 699 450**	**24 092 065**	**277 570**	**35 111 661**	**39 602 806**
Transfer to 12-month expected credit losses	295 727	(208 052)	(87 675)	-	-	-
Transfer to lifetime expected credit losses - non-impaired assets	(628 236)	645 578	(17 342)	-	-	-
Transfer to lifetime expected credit losses - impaired assets	(115 249)	(379 037)	494 286	-	-	-
New assets received or acquired	1 063 639	-	-	-	**1 063 639**	**-**
Net charge for (recovery of) allowance for expected credit losses	(609 238)	737 810	3 670 369	(142 702)	**3 656 239**	**5 205 632**
Reversal of the allowance due to the repayments of loans	(721 809)	(314 108)	(61 439)	-	**(1 097 356)**	**-**
Amounts written-off as non-recoverable during the period	-	-	(1 268 540)	-	**(1 268 540)**	**(746 799)**
Loans and advances to customers sold during the period as non-recoverable	-	-	(540 203)	-	**(540 203)**	**(29 243)**
Total allowance as at 30 June	**5 327 410**	**5 181 641**	**26 281 521**	**134 868**	**36 925 440**	**44 032 396**

Economic sector risk concentrations within the customer loan portfolio are as follows:

(in thousands of Russian roubles)	**30 June 2018 (unaudited) Amount**	**%**	**31 December 2017 Amount**	**%**
Individuals	81 977 389	23.1	75 805 832	21.2
Construction	42 399 591	11.9	48 814 115	13.6
Real estate	37 752 017	10.6	33 385 845	9.3
Trade	37 347 511	10.5	40 591 842	11.3
Heavy machinery and shipbuilding	24 392 873	6.9	22 682 774	6.3
Oil and gas extraction and transportation	23 969 679	6.8	24 748 113	6.9
Leasing and financial services	21 943 875	6.2	23 742 738	6.6
Entities financed by the government	20 750 289	5.8	12 052 542	3.4
Production and food industry	20 718 593	5.8	28 149 787	7.9
Transport	11 534 703	3.2	11 575 912	3.2
Telecommunications	8 386 863	2.4	8 535 370	2.4
Sports and health and entertainment organizations	7 003 792	2.0	7 306 273	2.0
Chemical industry	1 918 529	0.5	2 651 539	0.7
Energy	1 003 663	0.3	3 445 199	1.0
Other	13 986 027	4.0	14 222 561	4.2
Gross carrying amount of loans and advances to customers	**355 085 394**	**100.0**	**357 710 442**	**100.0**

As at 30 June 2018, the 20 largest groups of the Group's borrowers have aggregate loan amount of RUR 107 238 442 thousand (unaudited) (31 December 2017: RUR 101 487 470 thousand), which is 30.2% (31 December 2017: 28.4%) of the loan portfolio before expected credit losses allowance.

The table below contains the analysis by credit quality of loans and advances to customers measured at amortised cost and the related allowances for expected credit losses as at 30 June 2018 (unaudited):

(in thousands of Russian roubles)	12-month ECLs	Lifetime expected credit losses - non-impaired assets	Lifetime expected credit losses - impaired assets	Purchased or originated credit impaired assets	Total
Loans and advances to legal entities:					
Minimal credit risk	56 808 058	253 616	**-**	**-**	**57 061 674**
Low credit risk	87 545 265	13 807 228	**-**	**-**	**101 352 493**
Medium credit risk	22 738 966	21 375 091	**-**	-	**44 114 057**
High credit risk	15 647 134	14 897 083	**-**	1 127 243	**31 671 460**
Defaulted loans	**-**	**-**	36 698 998	947 323	**37 646 321**
Total gross carrying amount of loans and advances to legal entities	**182 739 423**	**50 333 018**	**36 698 998**	**2 074 566**	**271 846 005**
Allowance for expected credit losses	**(4 882 565)**	**(5 044 063)**	**(23 229 016)**	**(134 868)**	**(33 290 512)**
Total loans and advances to legal entities	**177 856 858**	**45 288 955**	**13 469 982**	**1 939 698**	**238 555 493**
Loans and advances to individuals:					
Not past due:	76 145 529	-	723 124	-	76 868 653
Overdue:					
- from 1 to 90 days	1 155 633	521 252	81 088	-	1 757 973
- over 90 days	-	-	3 350 763	-	3 350 763
Total gross carrying value of loans and advances to individuals	**77 301 162**	**521 252**	**4 154 975**	**-**	**81 977 389**
Allowance for expected credit losses	**(444 845)**	**(137 578)**	**(3 052 505)**	**-**	**(3 634 928)**
Total loans and advances to individuals	**76 856 317**	**383 674**	**1 102 470**	**-**	**78 342 461**
Total loans and advances to customers	**254 713 175**	**45 672 629**	**14 572 452**	**1 939 698**	**316 897 954**

The table below contains the analysis by credit quality of loans and advances to individuals measured at amortised cost with a breakdown by classes and the related allowances for expected credit losses as at 30 June 2018 (unaudited):

(in thousands of Russian roubles)	12-month ECLs	Lifetime expected credit losses - non-impaired assets	Lifetime expected credit losses - impaired assets	Purchased or originated credit impaired assets	**Total**
Mortgage loans and advances to customers					
Not past due:	54 277 692	-	140 521	-	54 418 213
Overdue:					
- from 1 to 90 days	848 107	369 292	19 413	-	1 236 812
- over 90 days	-	-	952 766	-	952 766
Total gross carrying value of mortgage loans and advances to customers	**55 125 799**	**369 292**	**1 112 700**	**-**	**56 607 791**
Allowance for expected credit losses	**(112 513)**	**(76 298)**	**(380 885)**	**-**	**(569 696)**
Total mortgage loans and advances to customers	**55 013 286**	**292 994**	**731 815**	**-**	**56 038 095**
Car loans and advances to customers					
Not past due:	2 232 600	-	624	-	2 233 224
Overdue:					
- from 1 to 90 days	54 373	15 814	575	-	70 762
- over 90 days	-	-	91 442	-	91 442
Total gross carrying value of car loans and advances to customers	**2 286 973**	**15 814**	**92 641**	**-**	**2 395 428**
Allowance for expected credit losses	**(10 913)**	**(3 588)**	**(56 696)**	**-**	**(71 197)**
Total car loans and advances to customers	**2 276 060**	**12 226**	**35 945**	**-**	**2 324 231**
Consumer loans and advances to VIP customers					
Not past due:	3 151 294	-	562 065	-	3 713 359
Overdue:					
- from 1 to 90 days	-	5	53 700	-	53 705
- over 90 days	-	-	1 367 047	-	1 367 047
Total gross carrying value of consumer loans and advances to VIP customers	**3 151 294**	**5**	**1 982 812**	**-**	**5 134 111**
Allowance for expected credit losses	**(54 793)**	**-**	**(1 676 250)**	**-**	**(1 731 043)**
Total consumer loans and advances to VIP customers	**3 096 501**	**5**	**306 562**	**-**	**3 403 068**
Consumer loans and advances to customers					
Not past due:	16 483 943	-	19 914	-	16 503 857
Overdue:					
- from 1 to 90 days	253 153	136 141	7 400	-	396 694
- over 90 days	-	-	939 508	-	939 508
Total gross carrying value of consumer loans and advances to customers	**16 737 096**	**136 141**	**966 822**	**-**	**17 840 059**
Allowance for expected credit losses	**(266 626)**	**(57 692)**	**(938 674)**	**-**	**(1 262 992)**
Total consumer loans and advances to customers	**16 470 470**	**78 449**	**28 148**	**-**	**16 577 067**

The table below contains the analysis by credit quality of loans and advances to customers and the related allowances for impairment as at 31 December 2017:

(in thousands of Russian roubles)	**Gross loans and advances to customers**	**Allowance for impairment**	**Net loans and advances to customers**	**Allowance for impairment to loans and advances to customers, %**
Loans and advances to legal entities:				
Loans collectively assessed for impairment not individually impaired				
Standard loans not past due	223 426 711	(7 459 635)	215 967 076	3.34
Watch list loans not past due	11 055 138	(948 109)	10 107 029	8.58
Individually assessed loans, for which specific indications of impairment have been identified				
Not past due	29 865 811	(16 799 960)	13 065 851	56.25
Overdue:				
- less than 5 calendar days	253 973	(110 001)	143 972	43.31
- from 6 to 30 calendar days	130 000	(13 000)	117 000	10.00
- from 31 to 60 calendar days	60 775	(33 462)	27 313	55.06
- from 61 to 90 calendar days	724 090	(373 811)	350 279	51.62
- from 91 to 180 calendar days	1 361 767	(391 928)	969 839	28.78
- from 181 to 365 calendar days	6 409 157	(4 755 362)	1 653 795	74.20
- over 365 calendar days	8 617 188	(5 780 500)	2 836 688	67.08
Total loans and advances to legal entities	**281 904 610**	**(36 665 768)**	**245 238 842**	**13.01**
Loans and advances to individuals:				
- mortgage loans	54 066 689	(464 026)	53 602 663	0.86
- car loans	2 101 129	(37 243)	2 063 886	1.77
- consumer loans to VIP clients	4 634 127	(1 415 042)	3 219 085	30.54
- other consumer loans	15 003 887	(912 453)	14 091 434	6.08
Total loans and advances to individuals	**75 805 832**	**(2 828 764)**	**72 977 068**	**3.73**
Total loans and advances to customers	**357 710 442**	**(39 494 532)**	**318 215 910**	**11.04**

(in thousands of Russian roubles)	Mortgage loans	Car loans	Consumer loans to VIP clients	Other consumer loans	Total loans and advances to individuals
Loans and advances to individuals:					
Standard loans not past due	52 994 790	1 998 214	3 190 434	14 022 382	72 205 820
Overdue:					
- less than 5 calendar days	44 039	3 939	-	2 681	50 659
- from 6 to 30 calendar days	99 987	6 480	-	36 370	142 837
- from 31 to 60 calendar days	79 858	2 824	188 100	28 694	299 476
- from 61 to 90 calendar days	70 518	4 551	-	27 960	103 029
- from 91 to 180 calendar days	121 783	4 438	546 863	77 923	751 007
- from 181 to 365 calendar days	191 495	12 283	199 662	118 478	521 918
- over 365 calendar days	464 219	68 400	509 068	689 399	1 731 086
Total loans and advances to individuals (before allowance for impairment)	**54 066 689**	**2 101 129**	**4 634 127**	**15 003 887**	**75 805 832**
Allowance for impairment	**(464 026)**	**(37 243)**	**(1 415 042)**	**(912 453)**	**(2 828 764)**
Total loans and advances to individuals (after allowance for impairment)	**53 602 663**	**2 063 886**	**3 219 085**	**14 091 434**	**72 977 068**

Maturity analyses of loans and advances to customers are disclosed in Note 20. Information on the fair value of loans and advances to customers is disclosed in Note 22. Information about related party transactions is disclosed in Note 23.

11 Investment Securities

(in thousands of Russian roubles)	30 June 2018 (unaudited)	31 December 2017
Debt investment securities measured at FVOCI		
Corporate bonds	7 813 732	14 416 675
Municipal bonds	938 146	5 483 398
Corporate Eurobonds	63 272	1 659 604
Federal loan bonds	25 539	151 410
Total debt investment securities	**8 840 689**	**21 711 087**
Equity securities	707 049	801 687
Total investment securities measured at FVOCI	**9 547 738**	**22 512 774**
Equity investment securities measured at FVTPL		
Equity securities	379 189	-
Total investment securities	**9 926 927**	**22 512 774**

Debt investment securities measured at FVOCI are recognised at fair value that also reflects the credit risk related to the securities.

Below is the analysis of debt investment securities measured at FVOCI by credit quality as at 30 June 2018 (unaudited):

(in thousands of Russian roubles)	12-month ECLs	Lifetime expected credit losses - non-impaired assets	Lifetime expected credit losses - impaired assets	Total
Group A	5 166 025	-	-	5 166 025
Group B	2 503 059	141 186	-	2 644 245
Group C	489 269	-	-	489 269
Group D	77 975	463 175	-	541 150
Total debt investment securities measured at FVOCI	**8 236 328**	**604 361**	**-**	**8 840 689**

Below is the analysis of debt investment securities held for sale by credit quality as at 31 December 2017:

(in thousands of Russian roubles)	Corporate bonds	Municipal bonds	Corporate Eurobonds	Federal loan bonds	Total
Not overdue or impaired					
Group A	491 324	-	-	-	491 324
Group B	12 872 062	5 313 745	1 659 604	151 410	19 996 821
Group C	479 779	67 232	-	-	547 011
Group D	573 510	102 421	-	-	675 931
Total debt investment securities held for sale	**14 416 675**	**5 483 398**	**1 659 604**	**151 410**	**21 711 087**

Maturity analyses of investment securities are disclosed in Note 20.

12 Customer Accounts

(in thousands of Russian roubles)	30 June 2018 (unaudited)	31 December 2017
State and public organizations		
- Current/settlement accounts	18 264	171
- Term deposits	7 083 036	-
Other legal entities		
- Current/settlement accounts	64 718 956	56 902 164
- Term deposits	67 200 016	90 482 623
Individuals		
- Current accounts/demand accounts	55 718 898	52 331 101
- Term deposits	159 929 646	153 256 089
Total customer accounts	**354 668 816**	**352 972 148**

State and public organisations exclude government owned profit oriented businesses (unaudited).

Economic sector concentrations within customer accounts are as follows:

	30 June 2018 (unaudited)		31 December 2017	
(in thousands of Russian roubles)	Amount	%	Amount	%
Individuals	215 648 544	60.8	205 587 190	58.2
Trade	25 895 364	7.3	29 878 909	8.5
Construction	24 847 943	7.0	28 295 818	8.0
Production	17 843 692	5.0	18 857 713	5.3
Real estate	17 101 688	4.8	18 888 438	5.4
Art, science and education	11 976 263	3.4	13 114 256	3.7
Financial services	11 065 488	3.1	14 293 036	4.0
Transport	10 643 750	3.0	8 804 042	2.5
Cities and municipalities	7 186 405	2.0	571 199	0.2
Communications	1 512 551	0.4	1 472 386	0.4
Public utilities	1 337 450	0.4	3 106 988	0.9
Medical institutions	722 230	0.2	782 253	0.2
Energy	680 501	0.2	1 164 663	0.3
Other	8 206 947	2.4	8 155 257	2.4
Total customer accounts	**354 668 816**	**100.0**	**352 972 148**	**100.0**

Maturity analyses of customer accounts are disclosed in Note 20. Information on the fair value of customer accounts is disclosed in Note 22. Information about related party transactions is disclosed in Note 23.

13 Bonds Issued

(in thousands of Russian roubles)	30 June 2018 (unaudited)	31 December 2017
Subordinated Eurobonds	6 390 986	6 453 249
Mortgage secured bonds issued by the mortgage agent	507 296	684 643
Total bonds issued	**6 898 282**	**7 137 892**

In the event of liquidation of the Bank, the claims for repayment of subordinated Eurobonds are subordinated to the claims of other creditors and depositors of the Bank.

The final maturity date of the mortgage secured bonds can differ from contractual in case of early repayment of mortgages pledged as security.

Maturity analyses of bonds issued are disclosed in Note 20.

14 Other Borrowed Funds

(in thousands of Russian roubles)	30 June 2018 (unaudited)	31 December 2017
Subordinated loans	1 466 191	1 566 231
Amount due to AKA AFK	-	337 513
Total other borrowed funds	**1 466 191**	**1 903 744**

In February 2018 scheduled repayment of a subordinated loan amounting to RUR 100 000 thousand was made. As at 31 December 2017, the carrying value of this subordinated loan amounted to RUR 100 000 thousand. This subordinated loan was raised at a fixed rate of 10.0% p. a.

In April 2018 scheduled repayment of the last tranche of the credit line received from AKA Ausfuhrkredit-Gesellschaft m.b.H. amounting to EUR 4 880 thousand was made. The maturity date of the credit line is 3 April 2018. As at 31 December 2017, the carrying amount of all tranches of this loan was EUR 4 901 thousand, which is equivalent to RUR 337 513 thousand. The loan was obtained at the rate of EURIBOR + 1.75% p.a., as at 31 December 2017 the interest rate was 1.75% p.a.

In the event of liquidation of the Bank, the claims for repayment of subordinated loans are subordinated to the claims of other creditors and depositors of the Bank.

The Group is required to meet certain covenants attached to subordinated loans and funds from AKA Ausfuhrkredit-Gesellschaft m.b.H. Non-compliance with such covenants may result in negative consequences for the Group including an increase in the cost of borrowings and declaration of default (except for subordinated loans). As at 31 December 2017, the Group fully met all covenants of the loan agreements.

Maturity analyses of other borrowed funds are disclosed in Note 20.

15 Share Capital

(in thousands of Russian roubles)	Number of outstanding ordinary shares (thousands)	Number of outstanding preference shares (thousands)	Ordinary shares	Preference shares	Share premium	Total
As at 1 January 2017	**439 554**	**20 100**	**3 544 283**	**177 451**	**21 393 878**	**25 115 612**
As at 31 December 2017	**499 554**	**20 100**	**3 604 283**	**177 451**	**24 513 878**	**28 295 612**
As at 30 June 2018 (unaudited)	**499 554**	**20 100**	**3 604 283**	**177 451**	**24 513 878**	**28 295 612**

As at 30 June 2018, the nominal registered amount of issued share capital of the Bank prior to restatement of capital contributions made before 1 January 2003 to the purchasing power of the Russian Rouble as at 31 December 2002, is RUR 519 654 thousand (31 December 2017: RUR 519 654 thousand). As at 30 June 2018, all of the outstanding shares of the Bank are authorised, issued and fully paid in.

As at 30 June 2018, all ordinary shares have a nominal value of RUR 1 (one) per share (31 December 2017: RUR 1 per share). Each share carries one vote.

As at 30 June 2018, the Bank has one type of preference shares with a nominal value of RUR 1 (one) in the amount of 20.100.000 shares.

Preference shares carry voting rights allowing to take part in and to vote at the General Shareholders' Meeting on all issues within its authority starting from the meeting following the annual General Shareholders' Meeting where, regardless of the reasons, no decision was made to declare dividend or partial dividend was declared on preference shares. Preference shares are not cumulative.

Share premium represents the excess of contributions received over the nominal value of shares issued.

16 Interest Income and Expense

(in thousands of Russian roubles)	**6 months ended 30 June 2018 (unaudited)**	**6 months ended 30 June 2017 (unaudited)**
Interest income calculated using the effective interest method		
Loans and advances to customers	15 709 596	17 874 807
Reverse sale and repurchase agreements	1 422 003	1 837 424
Due from banks	1 238 234	554 013
Debt investment securities at fair value through other comprehensive income	1 639 290	2 227 296
Other interest income		
Trading securities measured through profit or loss	2 225 518	1 297 211
Loans and advances to customers measured at FVTPL	60 922	-
Total interest income	**22 295 563**	**23 790 751**
Interest expense		
Term deposits of individuals	(4 178 980)	(4 380 338)
Due to banks	(4 168 750)	(5 922 547)
Term deposits of legal entities	(2 363 925)	(3 118 412)
Bonds issued	(363 597)	(618 784)
Other debt securities issued	(156 837)	(153 103)
Current/settlement accounts	(104 414)	(308 401)
Other borrowed funds	(50 146)	(59 142)
Total interest expense	**(11 386 649)**	**14 560 727**
Contributions to deposit insurance system	**(598 900)**	**(436 772)**
Net interest income	**10 310 014**	**8 793 252**

Information about related party transactions is disclosed in Note 23.

17 Earnings Per Share

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders of the Bank by the weighted average number of ordinary shares in issue during the year less treasury shares.

As at 30 June 2018, the Bank has no potentially dilutive preference shares. Thus, diluted earnings per share are equal to basic earnings per share.

Basic earnings per share are calculated as follows:

(in thousands of Russian roubles)	**6 months ended 30 June 2018 (unaudited)**	**6 months ended 30 June 2017 (unaudited)**
Profit attributable to shareholders of the Bank	4 344 838	3 295 241
Less preference dividends	(2 211)	(2 211)
Profit attributable to ordinary shareholders of the Bank	**4 342 627**	**3 293 030**
Weighted average basic number of ordinary shares in issue (thousands)	499 554	439 554
Basic earnings per share (in RUR per share)	**8.69**	**7.49**

18 Dividends

	6 months ended 30 June 2018 (unaudited)		**6 months ended 30 June 2017 (unaudited)**	
(in thousands of Russian roubles)	**Ordinary shares**	**Preference shares**	**Ordinary shares**	**Preference shares**
Dividends payable as at 1 January	**6 564**	**-**	**6 054**	**-**
Dividends declared during the period	809 277	2 211	461 532	2 211
Dividends paid during the period	(806 537)	(2 211)	(460 793)	(2 211)
Dividends payable as at 30 June	**9 304**	**-**	**6 793**	**-**
Dividends per share declared during the period (in RUR per share)	**1.62**	**0.11**	**1.05**	**0.11**

All dividends were declared and paid in Russian Roubles.

19 Segment Analysis

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the chief operating decision maker and for which discrete financial information is available. The Bank's Management Board performs the responsibilities of the chief operating decision maker.

Description of products and services that constitute sources of revenues of the reporting segments

The Group is organised on a basis of three main business segments:

- Corporate banking – settlement and current accounts, deposits, credit lines, loans and other credit facilities, foreign currency transactions with commercial and state entities.

- Operations on financial markets – financial instruments trading, loans and deposits on the interbank market, dealing in foreign exchange and derivative financial instruments.

- Retail banking – private banking services, private customer current accounts, deposits, retail investment products, custody services, credit and debit cards, consumer loans, mortgages and other loans to individual and VIP clients.

Transactions between the business segments are concluded at arm's length. Funds are ordinarily reallocated between segments, resulting in funding cost transfers, i.e. balance of transfer income/expense from reallocated financial resources among internal segments, disclosed in operating income/expense. Interest charged for these funds is based on market interest rates. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of assets and liabilities of the Group, but excluding some premises, equipment and intangible assets, long-term assets held-for-sale, investment property, other assets and liabilities and balances on taxation settlements.

Factors used by management to define reporting segments

The Group's segments are groups of strategic business units targeting different clients. They are managed separately because they require different technology, marketing strategies and level of service.

Evaluation of profit or loss and assets of operating segments

The Bank's Management Board analyses the financial information prepared in accordance with the requirements of Russian legislation. This financial information differs in some aspects from the information prepared in accordance with IFRS:

(i) resources are usually redistributed among segments using internal interest rates set by the Treasury Department. These interest rates are calculated based on the basic market interest rates, contractual maturity dates and observable actual maturity dates of customer accounts balances;

(ii) differences in the classification of securities to portfolios;

(iii) income tax is not allocated to segments;

(iv) allowance for loan impairment is recognised based on Russian legislation, and not on the basis of the model of "expected credit losses" specified in IFRS 9;

(v) fee and commission income on lending operations is recognised immediately and not in the future periods using the effective interest method;

(vi) own debt securities repurchase transactions are not recognised;

(vii) information on consolidated companies is not included.

The Bank's Management Board evaluates the business segment results based on the amount of profit before income taxes paid.

Information on profit or loss, assets and liabilities of reporting segments

Segment information for the main reporting business segments of the Group for the six-month period ended 30 June 2018 and the six-month period ended 30 June 2017 is set out below (in accordance with the management information).

(in thousands of Russian roubles)	Corporate banking	Operations on financial markets	Retail banking	Unallocated	Total
6 months ended 30 June 2018 (unaudited)					
External revenues	12 392 216	6 903 543	5 782 079	-	**25 077 838**
Internal funding charge	(4 599 900)	1 371 152	3 228 748	-	**-**
Total revenues	**7 792 316**	**8 274 695**	**9 010 827**	**-**	**25 077 838**
Revenues comprise:					
- Interest income	10 574 575	6 891 585	4 486 966	-	21 953 126
- Fee and commission income	1 801 569	11 958	1 295 029	-	3 108 556
- Other operating income	16 072	-	84	-	16 156
Segment results	**(1 358 225)**	**4 898 189**	**1 237 317**	**-**	**4 777 281**
Unallocated costs	-	-	-	(1 950 028)	(1 950 028)
(Loss) profit before tax	**(1 358 225)**	**4 898 189**	**1 237 317**	(1 950 028)	**2 827 253**
Income tax expense	-	-	-	(408 283)	(408 283)
(Loss) profit for the period	**(1 358 225)**	**4 898 189**	**1 237 317**	(2 358 311)	**2 418 970**
As at 30 June 2018 (unaudited)					
Reporting segment assets (before allowance for impairment)	**288 865 839**	**255 280 880**	**80 486 507**	**29 157 927**	**653 791 153**
Other segment items for the six-month period ended 30 June 2018 (unaudited)					
Depreciation and amortisation charge	(119 297)	(32 629)	(140 000)	(120 053)	(411 979)
Allowance for loan impairment	(4 599 218)	152 073	(412 832)	-	(4 859 977)

(in thousands of Russian roubles)	Corporate banking	Operations on financial markets	Retail banking	Unallocated	Total
6 months ended 30 June 2017 (unaudited)					
External revenues	15 242 188	6 227 426	4 763 886	-	**26 233 500**
Internal funding charge	(6 648 479)	2 515 760	4 132 719	-	**-**
Total revenues	**8 593 709**	**8 743 186**	**8 896 605**	**-**	**26 233 500**
Revenues comprise:					
- Interest income	13 492 116	6 224 507	3 623 971	-	23 340 594
- Fee and commission income	1 740 802	2 919	1 138 953	-	2 882 674
- Other operating income	9 270	-	962	-	10 232
Segment results	**(612 120)**	**5 306 357**	**1 905 791**	**-**	**6 600 028**
Unallocated costs	-	-	-	(2 657 193)	(2 657 193)
(Loss) profit before tax	**(612 120)**	**5 306 357**	**1 905 791**	**(2 657 193)**	**3 942 835**
Income tax expense	-	-	-	(783 849)	(783 849)
(Loss) profit for the period	**(612 120)**	**5 306 357**	**1 905 791**	**(3 441 042)**	**3 158 986**
As at 31 December 2017					
Reporting segment assets (before allowance for impairment)	**289 004 251**	**258 920 261**	**73 311 421**	**28 471 498**	**649 707 431**
Other segment items for the six-month period ended 30 June 2017 (unaudited)					
Depreciation and amortisation charge	(107 764)	(40 234)	(119 640)	(147 503)	(415 141)
Allowance for loan impairment	(4 644 449)	(7 103)	(342 021)	-	(4 993 573)

A reconciliation of assets according to management information with IFRS results as at 30 June 2018 and 31 December 2017 is set out below:

(in thousands of Russian roubles)	30 June 2018 (unaudited)	31 December 2017
Total segment assets (before provision for impairment)	**653 791 153**	**649 707 431**
Adjustment of allowance	(44 323 653)	(40 313 162)
Adjustments of income/expense accruals	2 110 772	2 277 835
Premises, equipment and intangible assets depreciation and fair value adjustment	550 880	1 467 394
Fair value and amortised cost adjustments	(391 719)	(313 072)
Income tax adjustments	(2 735 754)	(2 082 895)
Elimination of assets additionally recognised in management accounting	(7 607 226)	(4 790 524)
Other adjustments	45 132	(50 800)
Consolidation effect	693 812	957 164
Total assets under IFRS	**602 133 397**	**606 859 371**

A reconciliation of profit before tax according to management information with IFRS for the six-month period ended 30 June 2018 and for the six-month period ended 30 June 2017 is set out below:

(in thousands of Russian roubles)	6 months ended 30 June 2018 (unaudited data)	6 months ended 30 June 2017 (unaudited data)
Total profit for the reporting segments (before tax)	**2 827 253**	**3 942 835**
Adjustment of allowance	1 246 428	(360 102)
Adjustments of income/expense accruals	340 045	567 002
Premises, equipment and intangible assets depreciation and fair value adjustment	110 019	(28 480)
Fair value and amortised cost adjustments	518 703	290 656
Consolidation effect	147 055	227 916
Other adjustments	324 467	(505 483)
Total profit before tax under IFRS	**5 513 970**	**4 134 344**

20 Risk Management, Corporate Governance and Internal Control

Geographical information. The major part of the Group’s activity is concentrated in the North-West region of the Russian Federation. Activities are also carried out in Moscow.

There are no external customers (groups of related customers) with individual income from operations exceeding 10% of the total income from operations with such customers.

Corporate governance and internal control

Corporate governance system of the Group is based on full compliance with requirements of national statutory legislation and the CBRF and protection of the shareholders’ interests and considers world best practices to the largest possible extent. The Group fully complies with the legislation requirements concerning shareholders’ rights observance.

The supreme managing body of the Bank is the General Shareholders’ Meeting that makes strategic decisions on the principal Bank’s operations in accordance with Federal Law No. 208-FZ dated 26 December 1995 *On Joint Stock Companies and the Charter*.

Functions of the counting commission of the General Shareholders’ Meeting are performed by the Independent Registrar – JSC “Independent Registrar Company”.

General activities of the Bank are managed by the Supervisory Board, except for areas that are in competence of the General Shareholders’ Meeting. The Supervisory Board is elected and approved by the General Shareholders’ Meeting. The Supervisory Board sets the key strategic directions of the Bank’s activity and supervises the performance of the executive management bodies.

On 24 May 2018, the annual General Shareholders’ Meeting of PJSC “Bank “Saint-Petersburg” and the Supervisory Board meeting were held. According to the resolutions of these meetings the Supervisory Board members were elected and the Committees of the Supervisory Board were deemed necessary and created in accordance with the tasks and objectives of PJSC “Bank “Saint Petersburg”.

As at 30 June 2018, the composition of the Supervisory Board is as follows:

Elena Viktorovna Ivannikova – Chairperson of the Supervisory Board, member of the Supervisory Board since 2005; Vladislav Stanislavovich Guz – Deputy Chairman of the Supervisory Board, member of the Supervisory Board since June 2014, elected Chairman of the Human Resources and Remuneration Committee in 2018; Alexander Vasilyevich Savelyev – Chairman of the Management Board, elected to the Supervisory Board in 2001; Susan Gail Buyske – member of the Bank’s Supervisory Board since April 2012, Chairperson of the Risk Management Committee since August 2012; Andrey Pavlovich Bychkov – member of the Bank’s Supervisory Board since April 2010, Chairman of the Audit Committee since May 2017; Alexey Andreevich Germanovich – member of the Bank’s Supervisory Board since June 2014; Alexander Ivanovich Polukeev – member of the Bank’s Supervisory Board since June 2014; Andrey Mikhaylovich Zvyozdochkin – member of the Bank’s Supervisory Board since May 2017, Chairman of the Strategy Committee since 2017; Pavel Anatolievich Kiryukhantsev – member of the Supervisory Board of the Bank since May 2018.

As at 30 June 2018, Pavel Anatolievich Kiryukhantsev, Andrey Mikhaylovich Zvyozdochkin, members of the Supervisory Board, proved their compliance with independence requirements of PJSC MICEX Listing Rules. Andrey Pavlovich Bychkov, member of the Supervisory Board, was approved as an independent director by the resolution of the Supervisory Board dated 26 June 2018, in accordance with p.2 of chapter 2.18 of Appendix 2 to PJSC MICEX Listing Rules approved by the Supervisory Board of PJSC MICEX on 26 June 2017.

The Supervisory Board includes Committees established for the purpose of review and analysis of matters in competence of the Supervisory Board, preparation of recommendations on these matters for the Supervisory Board and execution of other functions vested to these Committees.

The primary objective of the Strategy Committee is to assist the Supervisory Board of the Bank in determining the Bank’s long-term and mid-term strategy and priority business areas and to review major innovation and investment programs of the Bank.

The primary objective of the Risk Management Committee is to assist the Supervisory Board of the Bank in determining priority areas for the Bank’s banking risk management efforts and to support appropriate risk management function within the Group.

The primary objectives of the Human Resources and Remuneration Committee are support of the efficient HR policy of the Bank, recruitment of qualified experts to management positions and creation of necessary incentives for their successful work, preparation of recommendations for the Supervisory Board on applicants for the key management positions and development of principles and criteria for remuneration rates for the key management (personnel) of the Bank.

The primary objective of the Audit Committee is to assist the Supervisory Board in efficient assessment of and control over the Bank's business and to control the completeness and fairness of the Bank's consolidated financial statements and the process of their preparation and presentation, and the performance of internal control and internal audit functions.

The Corporate Secretary's Office is responsible for compliance with the requirements of current legislation, the Charter and other internal policies of the Bank concerning shareholders' rights and protection of their interests during preparation and implementation of corporate action by the Bank. The Corporate Secretary's Office also supports communications between the Bank and its shareholders, holding of General Shareholders' Meetings and performance of the Supervisory Board and its Committees.

Operating activities of the Bank are managed by the sole executive body – the Chairman of the Management Board and the collective executive body – the Management Board of the Bank.

As at 30 June 2018, the composition of the Management Board is as follows:

Alexander Vasilyevich Savelyev is the Chairman of the Bank's Management Board.

Members of the Management Board: Konstantin Yurievich Balandin, Deputy Chairman of the Management Board, member of the Management Board since January 2008; Tatyana Yurievna Bogdanovich, Senior Vice President, Director of the Moscow Branch, member of the Management Board since March 2016; Vyacheslav Yakovlevich Ermolin, Vice President, member of the Management Board since December 2017; Vladimir Konstantinovich Likhodievsky, Deputy Chairman of the Management Board, member of the Management Board since April 2015; Kristina Borisovna Mironova, Deputy Chairperson of the Management Board, member of the Management Board since August 2013; Vladimir Grigoryevich Reutov, Deputy Chairman of the Management Board, member of the Management Board since July 2004; Vladimir Pavlovich Skatin, Deputy Chairman of the Management Board, member of the Management Board since June 2008; Pavel Vladimirovich Filimonenok, Deputy Chairman of the Management Board, member of the Management Board since December 2003.

Risk management

The Group's risk management function is carried out in respect of significant risks:

- credit risk (including concentration risk),
- market risk (including currency, equity, commodity, and interest rate risks),
- liquidity risk (including concentration risk),
- operational risk (including legal risk);

as well as other types of risk (compliance risk, strategic risk, reputational risk).

For each significant type of risk a corresponding management system was created to provide adequate risk assessment, including measures for its mitigation. The Group compares the amount of accepted risks with the size of its equity to guarantee its sufficiency at the level required by the CBRF, needed for performance of its obligations, including covenants, and for efficient use of equity.

Policy and procedures of financial assets management comply with the policy and procedures described and applied in the consolidated financial statements of the Group for the year ended 31 December 2017.

Liquidity risk

The purpose of liquidity management is to create and maintain the structure of assets and liabilities of the Group by categories and maturities, which will enable the Group to ensure timely payments of its obligations and meeting demands of the Group's customers. The Group forms liquidity reserves sufficient to provide normal operation of the Bank during a certain period in case of unforeseen outflow of resources caused by macroeconomic events or events directly connected with the Bank. In accordance with the results of analysis of the macroeconomic conditions or the state of the banking market, as well as the general trends in the Group’s activity, management may demand higher amounts of liquidity, if required.

The Group seeks to maintain a diversified and stable structure of funding sources. The Group invests the funds in diversified portfolios of highly liquid assets in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. In spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and past experience indicate that these customer accounts provide a long-term and stable source of funding for active operations of the Group.

Long-term (over 3 months) liquidity monitoring is based on analysis of the Group’s liquidity gaps. The Group evaluates the liquidity gaps through comparison of assets and liabilities by their terms (maturity). When attributing assets and liabilities to different term categories the Group takes into account both the contractual term and expected maturity and the statistical data on sustainability, and for securities it uses estimated disposal period of the portfolio without significant effect on the market price. The Group regards equity as a long-term funding source and, therefore, accounts for it by the longest remaining maturity period.

Results of liabilities attribution by terms (maturity) and liquidity indices calculation are presented in the general report for all currencies and in individual reports for each currency where total amount of liabilities exceeded 5% of the total assets. Bank’s regulations state minimum values of liquidity indices.

The IFRS liquidity position of the Group at 30 June 2018 is presented below (unaudited). The Group does not use the presented analysis by contractual maturity for liquidity management purposes. The following table shows assets and liabilities of the Group by their remaining contractual maturity, with the exception of financial instruments carried at fair value, changes of which are recognised in profit or loss for the period, and investment securities, which are shown in the category “Demand and less than 1 month”, as well as overdue loans and advances to customers which are shown in the category "From 6 to 12 months".

(in thousands of Russian roubles)	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	1–5 years	More than 5 years or no maturity	Total (unaudited)
Assets						
Cash and cash equivalents	40 752 325	-	-	-	-	40 752 325
Mandatory reserve deposits with the Central Bank of the Russian Federation	1 573 647	862 389	509 931	255 634	51	3 201 652
Trading securities	60 722 088	-	-	-	-	60 722 088
Securities pledged under sale and repurchase agreements and loaned	81 585 774	-	-	-	-	81 585 774
Reverse sale and repurchase agreements	33 847 271	216 389	-	-	-	34 063 660
Derivative financial assets	790 078	665 294	144 220	199 170	419 634	2 218 396
Due from banks	10 429 281	11 467 089	2 078 582	-	-	23 974 952
Loans and advances to customers						
- loans and advances to legal entities	5 004 820	55 182 337	48 132 232	120 039 052	11 459 052	239 817 493
- loans and advances to individuals	96 614	490 025	1 801 966	20 551 764	55 402 092	78 342 461
Investment securities	9 926 927	-	-	-	-	9 926 927
Investment property	-	-	-	-	7 371 940	7 371 940
Premises, equipment and intangible assets	-	-	-		14 407 282	14 407 282
Other assets	1 311 848	1 059 154	612 379	1 685 608	467 214	5 136 203
Long-term assets held-for- sale	-	-	612 244	-	-	612 244
Total assets	**246 040 673**	**69 942 677**	**53 891 554**	**142 731 228**	**89 527 265**	**602 133 397**
Liabilities						
Due to banks	145 022 179	496 683	4 669 943	854 880	-	151 043 685
Customer accounts	172 904 280	96 359 224	56 836 352	28 563 284	5 676	354 668 816
Financial liabilities recognised at fair value	4 880 465	-	-	-	-	4 880 465
Derivative financial liabilities	667 571	460 094	99 779	124 619	-	1 352 063
Bonds issued	-	1 004 694	5 386 292	-	507 296	6 898 282
Promissory notes and deposit certificates issued	1 611 276	1 726 112	2 703 166	672 642	544 599	7 257 795
Other borrowed funds	-	-	-	1 466 191	-	1 466 191
Other liabilities	587 314	1 243 939	279 664	78 169	346 468	2 535 554
Total liabilities	**325 673 085**	**101 290 746**	**69 975 196**	**31 759 785**	**1 404 039**	**530 102 851**
Net liquidity gap	**(79 632 412)**	**(31 348 069)**	**(16 083 642)**	**110 971 443**	**88 123 226**	**72 030 546**
Cumulative liquidity gap as at 30 June 2018	**(79 632 412)**	**(110 980 481)**	**(127 064 123)**	**(16 092 680)**	**72 030 546**	

The Group's IFRS liquidity position as at 31 December 2017 is presented below:

(in thousands of Russian roubles)	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	1–5 years	More than 5 years or no maturity	Total
Assets						
Cash and cash equivalents	39 198 510	-	-	-	-	39 198 510
Mandatory reserve deposits with the Central Bank of the Russian Federation	1 548 960	819 626	432 955	218 921	23	3 020 485
Trading securities	17 372 259	-	-	-	-	17 372 259
Securities pledged under sale and repurchase agreements and loaned	73 549 639	-	-	-	-	73 549 639
Reverse sale and repurchase agreements	59 007 257	8 801 836	-	-	-	67 809 093
Derivative financial assets	546 946	579 217	85 595	5 776	-	1 217 534
Due from banks	34 939 256	-	-	-	-	34 939 256
Loans and advances to customers						
- loans and advances to legal entities	3 921 662	63 689 231	45 554 483	123 285 117	8 788 349	245 238 842
- loans and advances to individuals	299 782	521 206	2 062 140	18 669 944	51 423 996	72 977 068
Investment securities available-for-sale	22 512 774	-	-	-	-	22 512 774
Investment property	-	-	-	-	8 102 997	8 102 997
Premises, equipment and intangible assets	-	-	-	-	14 670 596	14 670 596
Other assets	1 950 947	2 137 737	647 031	455 646	512 944	5 704 305
Long-term assets held-for- sale	-	-	546 013	-	-	546 013
Total assets	**254 847 992**	**76 548 853**	**49 328 217**	**142 635 404**	**83 498 905**	**606 859 371**
Liabilities						
Due to banks	139 788 773	7 342 682	598 898	1 194 110	267	148 924 730
Customer accounts	180 828 247	95 821 464	50 689 127	25 630 658	2 652	352 972 148
Financial liabilities recognised at fair value	12 511 033	-	-	-	-	12 511 033
Derivative financial liabilities	928 056	690 770	38 961	3 564	-	1 661 351
Bonds issued	-	-	1 079 055	5 374 194	684 643	7 137 892
Promissory notes and deposit certificates issued	1 503 547	1 657 783	1 230 810	2 339 320	521 885	7 253 345
Other borrowed funds	-	437 513	-	1 466 231	-	1 903 744
Other liabilities	1 741 191	1 373 386	90 144	103 591	276 687	3 584 999
Total liabilities	**337 300 847**	**107 323 598**	**53 726 995**	**36 111 668**	**1 486 134**	**535 949 242**
Net liquidity gap	**(82 452 855)**	**(30 774 745)**	**(4 398 778)**	**106 523 736**	**82 012 771**	**70 910 129**
Cumulative liquidity gap as at 31 December 2017	**(82 452 855)**	**(113 227 600)**	**(117 626 378)**	**(11 102 642)**	**70 910 129**	

The Group's management believes that available undrawn credit lines opened for the Group in the amount of RUR 89 210 000 thousand (unaudited) (31 December 2017: RUR 84 477 000 thousand) and assessment of stability of customer accounts in unstable environment will fully cover the Group’s liquidity gap specified in the tables above.

21 Capital Management

The objectives when managing the Group’s capital are: (i) to comply with the capital requirements set by the CBRF, (ii) to safeguard the Group’s ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio of at least 8% based on the April 1998 Basel Prudential Requirements for Banks (Basel I), to comply with capital requirements and capital adequacy ratio requirements in accordance with financial covenants set in agreements signed by the Group in order to raise funds.

(i) Under the current capital requirements set by the CBRF the Group has to maintain a ratio of regulatory capital to risk weighted assets (“capital adequacy ratio” N 20.0) of at least 8.0%, base capital adequacy ratio (N 20.1) of at least 4.5%, core capital adequacy ratio (N 20.2) of at least 6.0%. The Group has to maintain a level additional to the capital adequacy requirements as set by the CBRF in addition to the values above. In 2018 the Group had to comply with an additional level of 1.875% to all capital adequacy ratios as well as the countercyclical mark-up. As at 30 June 2018 countercyclical mark-up was 0.001%. Core capital, base capital and own funds (capital) and capital adequacy ratios based on reports prepared by the Group under Russian statutory accounting standards are presented in the table below:

(in thousands of Russian roubles)	**30 June 2018 (unaudited)**	**31 December 2017 (unaudited)**
Total capital	72 790 177	71 715 640
Base capital	50 102 070	50 412 295
Core capital	50 102 070	50 412 295
Capital adequacy ratio N 20.0	14.72%	14.23%
Base capital adequacy ratio N 20.1	10.22%	10.09%
Core capital adequacy ratio N 20.2	10.22%	10.09%

The capital adequacy ratio set by the CBRF is managed by the Treasury Department through monitoring and forecasting its components.

The Accounting Department performs calculations of the capital adequacy ratios on a daily basis. As at 30 June 2018 (unaudited) and 31 December 2017, the capital adequacy ratios were within limits established by the CBRF.

In September 2015 the Group attracted a subordinated loan from the State Corporation “Deposit Insurance Agency” in the form of federal loan bonds in the total nominal amount of RUR 14 594 500 thousand. As at 30 June 2018, the fair value of these bonds is RUR 16 668 787 thousand (unaudited) (31 December 2017: RUR 16 831 166 thousand). The interest rate is the coupon rate on the federal loan bonds plus 1% p.a. The loan maturity is from 2025 to 2034, depending on the terms of bond issue.

The Group is required to meet certain covenants attached to the subordinated loan from the State Corporation “Deposit Insurance Agency”. As at 30 June 2018 and 31 December 2017, the Group fully meets these covenants.

Arrangements to safeguard the Group’s ability to continue as a going concern are performed under the Bank’s Strategic Development Plan and divided into long-term and short-term capital management.

In the long-term the Bank plans its business scope under strategic and financial plans developed along with identification of the risks and corresponding capital requirements for three years and one year, respectively. When the required amount of capital is defined the Bank determines the sources of its increase: borrowings on capital markets, share issue and approximate volume thereof. The target volume of business and the amount of capital, as well as the sources of the capital increase are approved collegially by the following management bodies in the following order: the Asset and Liability Management Committee, the Management Board of the Bank, the Supervisory Board of the Bank.

In the short-term the Bank determines the capital surplus/deficit within the period from one to three months and develops the respective plan to increase assets in order to comply with the CBRF requirements. In some cases management uses administrative measures to influence the structure of assets and liabilities through interest rate policy, and in exceptional cases, through setting limits for certain banking transactions. The limits are established when the economic instruments are insufficient in terms of timing and the extent of influence.

Below is the capital and capital adequacy ratio of the Bank calculated in accordance with Basel I:

(in thousands of Russian roubles)	**30 June 2018 (unaudited)**	**31 December 2017**
Capital	**89 199 570**	**88 977 230**
Level 1	**67 081 041**	**65 880 561**
Paid-in share capital	3 781 734	3 781 734
Reserves and profit	62 825 165	61 623 308
Including:		
- Share premium	24 513 878	24 513 878
- Retained earnings	38 311 287	37 109 430
Non-controlling interest	589 015	590 392
Goodwill	(114 873)	(114 873)
Level 2	**22 118 529**	**23 096 669**
Revaluation reserve for premises and equipment	3 651 455	3 651 455
Revaluation reserve for investment securities	1 186 752	1 264 691
Subordinated loans	17 280 322	18 180 523
Risk weighted assets	**512 068 137**	**531 713 541**
Risk weighted banking assets	386 132 683	403 549 919
Risk weighted trading assets	88 196 387	90 933 600
Risk weighted non-banking assets	37 739 067	37 230 022
Total capital adequacy ratio	**17.42%**	**16.73%**
Tier 1 capital adequacy ratio	**13.10%**	**12.39%**

The Group was in compliance with the minimum capital adequacy ratio agreed with the creditors as at 30 June 2018 (unaudited) and 31 December 2017.

22 Fair Value of Financial Instruments

Methods and assumptions used in calculation of the fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal market at the measurement date. The best evidence of fair value is price quotations in an active market.

The estimated fair values of financial instruments are determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment 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 uses all available market information in estimating the fair value of financial instruments.

The fair value of instruments with floating interest rates usually equals their carrying amount. The fair value of instruments with fixed interest rates and fixed maturity dates that do not have market prices is based on discounted cash flows using current interest rates for instruments with similar credit risk and maturity date.

The Group measures fair values for financial instruments recorded in the condensed consolidated interim statement of financial position at fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- Level 3: Valuation techniques using significant unobservable market inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Management uses professional judgment for classification of financial instruments between categories of the fair value evaluation hierarchy. If the observable data used for fair value evaluation require significant adjustments they are categorised as Level 3.

Liabilities to banks and customers for refund of securities under sale and repurchase agreements received and sold by the Group are recognised at fair value.

The following table provides an analysis of financial instruments recognised at fair value by fair value categories as at 30 June 2018 (unaudited):

(in thousands of Russian roubles)	Level 1	Level 2	Level 3
FINANCIAL ASSETS			
Trading securities			
- Bank of Russia bonds	47 125 830	-	-
- Corporate bonds	8 684 392	1 304	-
- Corporate Eurobonds	4 461 184	-	-
- Federal loan bonds	178 072	-	-
- Municipal bonds	165 016	-	-
- Corporate shares	106 290	-	-
Securities pledged under sale and repurchase agreements and loaned			
- Corporate bonds	49 498 180	320 504	-
- Corporate Eurobonds	18 582 694	-	-
- Bank of Russia bonds	7 801 240	-	-
- Municipal bonds	4 045 974	-	-
- Federal loan bonds	1 337 182	-	-
Loans and advances to legal entities at fair value	-	-	1 262 000
Investment securities			
- Corporate bonds	7 812 692	1 039	-
- Municipal bonds	938 146	-	-
- Corporate Eurobonds	63 272	-	-
- Federal loan bonds	25 539	-	-
- Equity securities	510 464	-	575 774
Derivative financial assets	-	2 218 396	-
TOTAL FINANCIAL ASSETS AT FAIR VALUE	**151 336 167**	**2 541 243**	**1 837 774**
FINANCIAL LIABILITIES			
Financial liabilities recognised at fair value	4 880 465	-	-
Derivative financial liabilities	-	1 352 063	-
TOTAL FINANCIAL LIABILITIES AT FAIR VALUE	**4 880 465**	**1 352 063**	**-**

The following table provides an analysis of financial instruments recognised at fair value by fair value categories as at 31 December 2017:

(in thousands of Russian roubles)	Level 1	Level 2	Level 3
FINANCIAL ASSETS			
Trading securities			
- Corporate bonds	9 346 958	506 762	-
- Corporate Eurobonds	5 996 183	-	-
- Corporate shares	1 246 102	-	-
- Municipal bonds	181 186	-	-
- Federal loan bonds	95 068	-	-
Securities pledged under sale and repurchase agreements and loaned			
- Corporate Eurobonds	36 983 402	-	-
- Corporate bonds	35 351 562	-	-
- Corporate shares	823 471	-	-
- Federal loan bonds	391 204	-	-
Investment securities held-for-sale			
- Corporate bonds	14 062 994	353 681	-
- Corporate Eurobonds	1 659 604	-	-
- Municipal bonds	5 422 023	61 375	-
- Federal loan bonds	151 410	-	-
- Equity securities	403 328	-	-
Derivative financial assets	-	1 217 534	-
TOTAL FINANCIAL ASSETS AT FAIR VALUE	**112 114 495**	**2 139 352**	**-**
FINANCIAL LIABILITIES			
Financial liabilities recognised at fair value	12 511 033	-	-
Derivative financial liabilities	-	1 661 351	-
TOTAL FINANCIAL LIABILITIES AT FAIR VALUE	**12 511 033**	**1 661 351**	**-**

The table below contains the reconciliation of opening and closing balances of assets classified into Level 3 of the fair value hierarchy as at 30 June 2018:

(in thousands of Russian roubles)	As at 1 January 2018 after application of IFRS 9	Total income/(expenses) recognised in profit or loss	Purchases	Fair value as at 30 June 2018
Loans to legal entities at fair value	879 766	382 234	-	1 262 000
Investment securities at FVOCI	192 647	-	3 938	196 585
Investment securities at FVTPL	280 980	98 209	-	379 189
Total assets Level 3	**1 353 393**	**480 443**	**3 938**	**1 837 774**

Measurement of loans to legal entities at fair value. The Group classified as financial assets measured at FVTPL loans provided to a company of the "Real Estate transactions" sector for investment purposes. The estimates of fair values of loans are obtained by the Group from an independent appraiser, who prepared a report on evaluation of an interest in the business financed, based on cost and income approach, and for the expected net cash flow and weighted average capital cost (WACC) assumptions were used.

The estimated weighted average capital cost (WACC) was 16%. If the WACC increases/decreases by 1.0%, the carrying value of the financial instrument will decrease by RUR 88 000 thousand, increase by RUR 94 000 thousand.

Measurement of investment securities at fair value through other comprehensive income. Securities at FVOCI represent investments in shares of/interest in investees not listed with a stock exchange. Valuation techniques may require assumptions not supported by observable market data.

The estimates of fair values of securities at FVOCI are obtained by the Group from an independent appraiser, based on net assets method. Analogue company (capital market) method was used for comparison purposes, but the results of its application were not used for evaluation of fair values of financial assets because multiples were calculated based on the data provided by companies operating in foreign jurisdictions and the factor that equity securities are owned by minority shareholders was additionally included.

If the net asset amount of the companies applied by the Group within the valuation model increases/decreases by 1.0%, the carrying value of the financial instrument will decrease by RUR 1 960 thousand, increase by RUR 1 960 thousand.

Investment securities at fair value through profit or loss. Investments made by fund BSPB CAPITAL VPF L.P. into the investees amount to RUR 379 190 thousand***.*** The fair value of the Fund's investments was evaluated in accordance with International Private Equity and Venture Capital Valuation Guidelines (IPEV) based on an adjusted multiple of "Enterprise Value/Earnings" of international public companies based on the sector they operate in.

Estimated value of the weighted average adjusted multiple of "Enterprise Value/Earnings" was 6.44. If the multiple increases/decreases by 1.0%, the carrying value of the financial instrument will decrease by RUR 3 790 thousand, increase by RUR 3 790 thousand.

The following table provides fair values of financial assets carried at amortised cost as at 30 June 2018 and 31 December 2017:

	30 June 2018 (unaudited)		**31 December 2017**	
(in thousands of Russian roubles)	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets carried at amortised cost				
Loans and advances to customers at amortised cost				
Loans to legal entities				
- loans to finance working capital	131 563 705	132 818 759	144 064 834	144 835 908
- investment loans	86 713 633	87 443 100	89 445 013	89 792 992
- loans to entities financed by the government	20 278 155	19 805 978	11 728 995	11 589 626
Loans to individuals				
- mortgage loans	56 038 095	57 820 157	53 602 663	59 110 669
- car loans	2 324 231	2 375 399	2 063 886	2 108 660
- consumer loans to VIP clients	3 403 068	3 258 542	3 219 085	3 062 868
- other consumer loans	16 577 067	17 002 885	14 091 434	15 063 893
TOTAL	**316 897 954**	**320 524 820**	**318 215 910**	**325 564 616**

The following table provides fair values of financial liabilities carried at amortised cost as at 30 June 2018 and 31 December 2017:

(in thousands of Russian roubles)	**30 June 2018 (unaudited)** Carrying amount	Fair value	**31 December 2017** Carrying amount	Fair value
Financial liabilities carried at amortised cost				
Customer accounts				
State and public organisations				
- Current/settlement accounts	18 264	18 264	171	171
- Term deposits	7 083 036	7 006 792	-	-
Other legal entities				
- Current/settlement accounts	64 718 956	64 718 956	56 902 164	56 902 164
- Term deposits	67 200 016	67 479 310	90 482 623	90 668 708
Individuals				
- Current accounts/demand deposits	55 718 898	55 718 898	52 331 101	52 331 101
- Term deposits	159 929 646	163 257 599	153 256 089	156 738 055
Bonds issued				
- Subordinated Eurobonds	6 390 986	7 569 734	6 453 249	7 302 745
- Mortgage secured bonds issued by the mortgage agent	507 296	525 585	684 643	709 270
Promissory notes and deposit certificates issued				
- Promissory notes	7 257 793	7 560 884	7 253 343	8 933 856
- Deposit certificates	2	2	2	2
Other borrowed funds				
- Subordinated loans	1 466 191	1 430 451	1 566 231	1 519 524
- Amount due to AKA AFK	-	-	337 513	336 085
TOTAL	**370 291 084**	**375 286 475**	**369 267 129**	**375 441 681**

Trading securities, securities pledged under sale and repurchase agreements and loaned, investment securities, derivative financial instruments are carried at fair value in the condensed consolidated interim financial information.

According to the Group's estimates, fair values of financial assets and liabilities, except for those disclosed in the tables above, do not differ significantly from their carrying amounts.

Fair value hierarchy for financial assets and liabilities disclosed in the tables above is as follows: bonds issued – Level 1, promissory notes and deposit certificates issued – Level 2, customer accounts - Level 2, other borrowed funds – Level 3, loans and advances to customers – Level 3.

Loans and receivables measured at amortised cost. The fair value of instruments with floating interest rates usually equals their carrying amount. If the market situation significantly changes the interest rates on loans and advances to customers and due from banks with fixed interest rate may be revised. Interest rates on loans issued just before the reporting date do not significantly differ from current interest rates on new instruments with similar credit risk and maturity date. If interest rates on earlier issued loans, according to the Group's estimates, significantly differ from current interest rates for similar instruments as at the reporting date, the Group determines estimated fair value for these loans. The estimate is based on discounted cash flows using current interest rates based on available market information for new instruments with similar credit risk and maturity date. Discounting rates depend on currency, maturity date and counterparty.

The following table provides an analysis of interest rates on loans and advances to customers measured at amortised cost as at 30 June 2018 and 31 December 2017:

	30 June 2018 (unaudited)	31 December 2017
Loans and advances to customers:		
Loans and advances to legal entities	2.90% - 11.00% per annum	1.25% - 13.18% per annum
Loans and advances to individuals	4.00% - 16.82% per annum	3.52% - 15.97% per annum

Liabilities measured at amortised cost. The estimated fair value of instruments with fixed interest rates and fixed maturity dates that do not have market prices is based on discounted cash flows using current interest rates for new instruments with similar credit risk and maturity date. Discounting interest rates depend on currency, maturity date and as at 30 June 2018 range from 0.01% to 8.69% per annum (31 December 2017: from 0.01% to 10.0%).

The estimated fair values of other financial assets, including trade receivables, approximates their amortised cost due to their short-term nature.

23 Related Party Transactions

For the purposes of this condensed consolidated interim financial information, 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 and operational decisions. In considering each possible related party relationship, attention is directed to the economic substance of the relationship, not merely to the legal form. The family of Mr. A.V. Savelyev, through the ownership of the Bank’s shares and the option to purchase interest in the companies currently controlled by the members of the Bank’s management (see Note 1), is the majority ultimate beneficiary of the Bank.

In the normal course of business the Group enters into transactions with shareholders, Group’s management and other related parties.

As at 30 June 2018, the outstanding balances with related parties are as follows (unaudited):

(in thousands of Russian roubles)	Shareholders	Group’s Management	Other related parties
Loans and advances to customers measured at amortised cost (contractual interest rates 3.00%-24.90% per annum)	1	57 885	-
Allowance for expected credit losses	-	(709)	-
Customer accounts (contractual interest rates 0.01%-10.05% per annum)	3 825 811	1 390 016	568 559

The income and expense items under transactions with related parties, other than compensation to the members of the Supervisory and the Management Boards, for the six-month period ended 30 June 2018 (unaudited) are as follows:

(in thousands of Russian roubles)	**Shareholders**	**Group's Management**	**Other related parties**
Interest income calculated using the effective interest method	6	4 114	-
Interest expense	(69 751)	(28 332)	(13 816)
Allowance for expected credit losses	1	(439)	-
Fee and commission income	107	295	1 661

Aggregate amounts lent to and repaid by related parties during the six-month period ended 30 June 2018 (unaudited) are:

(in thousands of Russian roubles)	**Shareholders**	**Group's Management**	**Other related parties**
Amounts of loans lent to related parties during the period at amortised cost	2 477	102 777	-
Amounts of loans repaid by related parties during the period at amortised cost	3 082	99 515	-

As at 31 December 2017, the outstanding balances with related parties are as follows:

(in thousands of Russian roubles)	**Shareholders**	**Group's Management**	**Other related parties**
Loans and advances to customers (contractual interest rates 3.00%-24.90% per annum)	606	54 623	-
Impairment allowance for loans and advances to customers	(1)	(270)	-
Customer accounts (contractual interest rates 0.01%-12.40% per annum)	2 881 368	1 496 803	692 211

The income and expense items under transactions with related parties, other than compensation to the members of the Supervisory and the Management Boards, for the six-month period ended 30 June 2017 (unaudited) are as follows:

(in thousands of Russian roubles)	**Shareholders**	**Group's Management**	**Other related parties**
Interest income	1	5 539	-
Interest expense	(95 463)	(42 700)	(21 768)
Allowance for loan portfolio impairment	-	(42)	(6 974)
Fee and commission income	77	556	1 354

Aggregate amounts lent to and repaid by related parties during the six-month period ended 30 June 2017 (unaudited) are:

(in thousands of Russian roubles)	**Shareholders**	**Group's Management**	**Other related parties**
Amounts of loans lent to related parties during the period	3 676	80 788	5
Amounts of loans repaid by related parties during the period	3 720	119 707	100

For the six-month period ended 30 June 2018 (unaudited), total remuneration for members of the Supervisory Board and the Management Board of the Bank, including pension contributions and discretionary bonuses, amounts to RUR 283 828 thousand (for the six-month period ended 30 June 2017: RUR 353 167 thousand (unaudited).

24 Consolidation of Companies

During 6 months of 2018 the following companies were included into the Group's subsidiaries:

		Ownership, %		
Name	**Country**	**30 June 2018**	**31 December 2017**	**Principal activities**
16th Nevsky Fund, Combined CEIF	Russian Federation	100%	-	Direct investments
17th Nevsky Fund, Combined CEIF	Russian Federation	100%	-	Direct investments

16th Nevsky Fund, Combined CEIF, and 17th Nevsky Fund, Combined CEIF, are funds specialised in real estate and other assets management to increase their value.

25 Subsequent Events

On 2 August 2018, in accordance with paragraph 2 of Article 72 of the Federal Law *On Joint Stock Companies* the Bank's Supervisory Board passed a resolution concerning acquisition by the Bank of 12,000,000 of its own outstanding ordinary registered shares in book-entry form (Minutes No. 3 of 3 August 2018) at RUR 55.00 per share. The period during which the shareholders' offers/declarations of intention for the sale of their shares to the Bank will be received or withdrawn is from 7 September 2018 through 7 October 2018. Shareholders will be paid for the shares acquired by the Bank within the period from 12 October 2018 through 22 October 2018. The shares will be transferred to the Bank's treasury account in the shareholder register after payment.

A.V. Savelyev
Chairman of the Management Board

N.G. Tomilina
Chief Accountant