Report on Review of Interim Financial Information of
PJSC Sovcombank and its subsidiaries
for the three months ended 31 March 2018

June 2018

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

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827
ОГРН: 1027739707203
ИНН: 7709383532

Report on Review of Interim Financial Information

To the Supervisory Board of
PJSC Sovcombank

Background

We have reviewed the accompanying interim condensed consolidated financial statements of PJSC Sovcombank and its subsidiaries, which comprise the interim condensed consolidated statement of financial position as at 31 March 2018, the interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the three-month period then ended and explanatory notes ("interim financial information").

Management of PJSC Sovcombank is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

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Conclusion

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

G.A. Shinin
Partner
Ernst & Young LLC

6 June 2018

Details of the entity

Name: PJSC Sovcombank
Record made in the State Register of Legal Entities on 1 September 2014, State Registration Number 1144400000425.
Address: Russia 156000, Kostroma, prospect Tekstilshchikov, 46.

Details of the auditor

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

Interim condensed consolidated statement of comprehensive income
for the three month-period ended 31 March 2018

	Notes	*For the three months ended 31 March (unaudited)* 2018 RUB MM	2017 RUB MM
Interest income calculated using the EIR method	4	10,669	9,787
Other interest income	4	7,123	6,477
Interest expense	4	(8,674)	(8,378)
Obligatory deposit insurance		(450)	(281)
Net interest income		**8,668**	**7,605**
Allowances for credit losses	15	(1,327)	(483)
Net interest income after allowance for credit losses		**7,341**	**7,122**
Fee and commission income	5	4,610	3,867
Fee and commission expense		(762)	(352)
Net fee and commission income		**3,848**	**3,515**
Net gain on financial instruments at fair value through profit or loss		1,807	3,292
Net losses from derecognition of financial assets at fair value through other comprehensive income		(145)	-
Net foreign exchange gain	6	168	130
Other impairment and provisions	10	(324)	60
Share of profit in car leasing joint venture		30	30
Share of profit of associates		287	-
Other operating income	7	150	1,200
Operating income		**13,162**	**15,349**
Revaluation of buildings and investment property		-	5
Personnel expenses	8	(3,853)	(2,844)
Other general and administrative expenses	9	(3,002)	(2,130)
Profit before income tax expense		**6,307**	**10,380**
Income tax expense	11	(1,205)	(1,983)
Profit for the period		**5,102**	**8,397**
Profit for the period attributable to:			
- shareholders of the Bank		5,020	8,184
- non-controlling interests		82	213
Other comprehensive income			
Other comprehensive income to be reclassified subsequently to profit or loss when specific conditions are met			
Net gains from investment securities, net of tax		79	-
Other comprehensive income not to be reclassified subsequently to profit or loss			
Revaluation of buildings, net of tax		(4)	(2)
Other comprehensive income, net of tax		**75**	**(2)**
Total comprehensive income		**5,177**	**8,395**
Comprehensive income attributable to:			
- shareholders of the Bank		5,095	8,182
- non-controlling interests		82	213

Approved: 6 June 2018

Mr. Dmitry Gusev Chairman of the Management Board	Mr. Dmitry Baryshnikov Financial Director	Mr. Andrei Osnos Managing Director

Interim condensed consolidated statement of financial position as at 31 March 2018

	Notes	31 March 2018 (unaudited) RUB MM	31 December 2017 RUB MM
Assets			
Cash and cash equivalents	12	50,002	39,962
Mandatory cash balances with the CBR		3,410	2,975
Placements with banks	13	6,813	9,338
Financial instruments at fair value through profit or loss			
- held by the Group	14	203,488	140,043
- pledged under sale and repurchase agreements	14	110,376	209,098
Investment securities	16	3,765	3,935
Loans to customers			
- held by the Group	15	258,111	262,729
- pledged under sale and repurchase agreements	15	3,040	3,516
Investment in associates		11,314	8,224
Investment in car leasing joint venture		537	506
Assets held for sale		7	425
Investment property		58	58
Property and equipment and intangible assets		5,705	4,942
Goodwill		952	728
Deferred tax asset		410	459
Other assets		4,884	2,561
Total assets		**662,872**	**689,499**
Liabilities			
Due to banks	18	107,954	194,135
Due to customers	17	401,503	358,914
Debt securities issued	19	14,370	15,744
Other borrowed funds	20	15,388	15,381
Deferred tax liability		3,351	5,244
Subordinated debt	21	20,609	6,799
Other liabilities		10,756	7,864
Total liabilities		**573,931**	**604,081**
Equity			
Share capital	22	1,716	1,716
Other capital contributions		2,852	2,852
Revaluation reserve for investment securities		885	806
Perpetual subordinated debt		5,650	-
Revaluation reserve for buildings		118	122
Retained earnings		76,018	78,302
Total equity attributable to shareholders of the Bank		**87,239**	**83,798**
Non-controlling interests		1,702	1,620
Total equity		**88,941**	**85,418**
Total equity and liabilities		**662,872**	**689,499**

Approved: 6 June 2018

Mr. Dmitry Gusev
Chairman of the Management Board

Mr. Dmitry Baryshnikov
Financial Director

Mr. Andrei Osnos
Managing Director

The interim condensed consolidated statement of financial position is to be read in conjunction with notes 1 to 30 to, and forming an integral part of, the interim condensed consolidated financial statements.

Interim condensed consolidated statement of cash flows

for the three month-period ended 31 March 2018

		For the three months ended 31 March (unaudited)	
	Notes	***2018 RUB MM***	***2017 RUB MM***
Cash flows from operating activities before changes in operating assets and liabilities		7,394	6,312
(Increase)/decrease in operating assets		34,976	15,212
Increase/(decrease) in operating liabilities		(42,125)	2,682
Net cash flows from operating activities before income tax		**245**	**24,206**
Income tax paid		(832)	(2,267)
Cash flows from operating activities		**(587)**	**21,939**
Cash flows from investing activities		(3,450)	(108)
Cash flows from financing activities		14,637	(1,351)
Net increase/(decrease) in cash and cash equivalents		**10,600**	**20,480**
Effect of exchange rate changes on cash and cash equivalents		(560)	(369)
Cash and cash equivalents at the beginning of the period		39,962	21,465
Cash and cash equivalents at the end of the period	12	**50,002**	**41,576**

The interim condensed consolidated statement of cash flows is to be read in conjunction with notes 1 to 30 to, and forming an integral part of, the interim condensed consolidated financial statements.

Interim condensed consolidated statement of changes in equity

for the three month-period ended 31 March 2018

	Share capital RUB MM	*Other capital contributions RUB MM*	*Revaluation reserve for property RUB MM*	*Revaluation reserve for investment securities RUB MM*	*Perpetual subordinated debt RUB MM*	*Retained earnings RUB MM*	*Total equity attributa-ble to shareholders of the Bank RUB MM*	*Non-controlling interests*	*Total equity*
As at 1 January 2017	**1,716**	**2,382**	**89**	**1,588**	**5,770**	**52,249**	**63,794**	**122**	**63,916**
Net profit for the period	–	–	–	–	–	8,184	**8,184**	213	**8,397**
Other comprehensive income for the period	–	–	(2)	–	–	–	**(2)**	–	**(2)**
Total comprehensive income	**–**	**–**	**(2)**	**–**	**–**	**8,184**	**8,182**	**213**	**8,395**
Perpetual subordinated debt received	–	–	–	–	(5,770)	16	**(5,754)**	–	**(5,754)**
Dividends (Note 22)	–	–	–	–	–	(3,053)	**(3,053)**	–	**(3,053)**
As at 31 March 2017 (unaudited)	**1,716**	**2,382**	**87**	**1,588**	**–**	**57,396**	**63,169**	**335**	**63,504**
As at 1 January 2018	**1,716**	**2,852**	**122**	**806**	**–**	**78,302**	**83,798**	**1,620**	**85,418**
Impact of adopting IFRS 9	–	–	–	–	–	(3,357)	**(3,357)**	–	**(3,357)**
Balance as at 1 January 2018 restated under IFRS 9	**1,716**	**2,852**	**122**	**806**	**–**	**74,945**	**80,441**	**1,620**	**82,061**
Net profit for the period	–	–	–	–	–	5,020	**5,020**	82	**5,102**
Other comprehensive income for the period	–	–	(4)	79	–	–	**75**	–	**75**
Total comprehensive income	**–**	**–**	**(4)**	**79**	**–**	**5,020**	**5,095**	**82**	**5,177**
Dividends (Note 22)	–	–	–	–	–	(3,820)	**(3,820)**	–	**(3,820)**
Payments on perpetual subordinated debt (Note 22)	–	–	–	–	–	(149)	**(149)**	–	**(149)**
Perpetual subordinated debt received	–	–	–	–	5,650	–	**5,650**	–	**5,650**
Tax effect recognized in respect of perpetual subordinated debt	–	–	–	–	–	22	**22**	–	**22**
As at 31 March 2018 (unaudited)	**1,716**	**2,852**	**118**	**885**	**5,650**	**76,018**	**87,239**	**1,702**	**88,941**

The interim condensed consolidated statement of changes in equity is to be read in conjunction with notes 1 to 30 to, and forming an integral part of, the interim condensed consolidated financial statements.

1. Background

Principal activities

These interim condensed consolidated financial statements include the financial statements of Public Joint-Stock Company ("PJSC") Sovcombank (the "Bank" or "Sovcombank") and its subsidiaries (together referred to as the "Group" or "Sovcombank Group"). A list of principal consolidated subsidiaries included in these consolidated financial statements of Sovcombank Group is disclosed in Note 29.

Sovcombank, the parent company of the Group, was established in 1990 as Buoykombank Limited Liability Company in the village of Buoy, Kostroma Region. The current major ultimate beneficial owners acquired the Bank, renamed into Sovcombank and relocated its head office to the city of Kostroma in 2002.

In September 2014, the Bank changed its legal form from a "limited liability company" to an "open joint-stock company". In December 2014, the Bank changed its legal form from the "open joint-stock company" to a "public joint-stock company" pursuant to regulatory changes in Russia. These reorganizations, first into the "open joint-stock company" and then into the "public joint-stock company", had no effect on the principal activities of the Bank or its shareholder structure.

The Bank's registered legal address is: 46, prospect Tekstilshchikov, Kostroma, 156000, Russia. The Bank holds a general banking license No. 963 issued by the Central Bank of the Russian Federation (the "CBR"). The Bank holds licenses of a professional securities market participant issued by the Federal Securities Market Commission (the "FSMC") on 27 January 2009. The Bank is a member of the deposit insurance system managed by State Corporation Deposit Insurance Agency (the "DIA") since 15 September 2005.

The Group's principal business activity is retail and corporate banking as well as investment banking services. This includes accepting term deposits and issuing commercial loans denominated in Russian rubles and foreign currencies; providing financial services, including investment banking services; dealing with securities and derivative financial instruments. The Group includes a digital platform (integrated RTS-Tender.ru and Fintender.ru), which enables access to public and municipal procurement for 363 thousand companies, mostly small and medium businesses. The Group operates primarily in the Russian Federation.

The Bank operates in 2,445 offices located in 1,043 cities and towns across 74 constituent entities of the Russian Federation (31 December 2017: 2,418 offices located in 1,031 across 74 constituent entities of the Russian Federation).

The Group's customers can withdraw and deposit cash though 4,197 ATMs and cash-in terminals (31 December 2017: 4,119 ATMs and cash-in terminals).

The Group serves 3.4 million individuals (2.9 million borrowers and 0.5 million depositors) and 0.2 million corporate customers.

The Bank had 11,801 employees (31 December 2017: 11,480 employees).

Shareholders

The Group's ownership is as follows:

	Ownership, % ***31 March 2018***	***Ownership, %*** ***31 December 2017***
Sovco Capital Partners N.V.	100.00%	100.00%

As at 31 March 2018 and 31 December 2017, the Group was not ultimately controlled by any single beneficiary owner (Note 22).

Sovco Capital Partners N.V., a legal entity incorporated in the Netherlands is a legal successor of Sovco Capital Partners B.V. since 30 August 2016. Sovco Capital Partners B.V., was the shareholder of the Group since 2003. Sovco Capital Partners N.V. is owned by a group of Russian businessmen, including the key members of Sovcombank management and the Supervisory Board of the Bank, but is not controlled by any ultimate beneficial owner.

Sovco Capital Partners N.V. is a tax resident of the Russian Federation since 1 January 2016.

The Bank's Supervisory Board comprises seven persons, including the Bank's five major ultimate beneficial owners (individuals who indirectly own a stake in the Bank and have a significant effect on the Bank's decision-making processes), one member of the Bank's Management Board and one independent director. Mr. Mikhail Kuchment is the Chairman of the Bank's Supervisory Board.

The Bank is regulated and supervised by the Bank of Russia, a sole regulator of banking and insurance activities, as well as financial markets in the Russian Federation.

1. Background (continued)

Operating environment

The Group operates predominantly in the Russian Federation. Russia continues to carry out economic reforms and to develop its legal, tax and regulatory frameworks.

The Russian economy demonstrates a strong correlation to changes in oil and other commodities prices and to a limited extent is affected by economic sanctions imposed on Russia by a number of countries. The Russian Government and the CBR have taken consistent and effective measures in response to a decline in commodity prices. Floating official exchange rate, inflation targeting and active support of the financial sector lowered the inflation rate and relatively stabilized the Russian economy.

The combination of these factors may have a negative impact on the Group's future financial position, results of operations and business prospects. Management believes that it is taking all appropriate measures to support the sustainability of the Group's business in the current circumstances.

2. Basis of preparation

General

These interim condensed consolidated financial statements for the three-month period ended 31 March 2018 have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*.

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

These interim condensed consolidated financial statements are presented in millions of Russian rubles (hereinafter, "RUB MM"), unless otherwise indicated.

Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those applied by the Group in the preparation of the Group's annual financial statements for the year ended 31 December 2017 with the exception of the adoption of new standards effective as of 1 January 2018. The Group has not yet adopted any standards, interpretations or amendments that have been issued but is not yet effective.

IFRS 9 Financial Instruments

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

(a) Classification and measurement

Under IFRS 9, all debt financial assets that do not meet a "solely payment of principal and interest" (SPPI) criterion, are classified at initial recognition at fair value through profit or loss (FVPL).

Under this criterion, debt instruments that do not correspond to a "basic lending arrangement", such as instruments containing embedded conversion options or "non-recourse" loans, are measured at FVPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

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

2. Basis of preparation (continued)

Changes in accounting policies (continued)

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

The classification and measurement of financial liabilities remains largely unchanged from the current IAS 39 requirements.

Derivatives will continue to be measured at FVPL. Embedded derivatives are no longer separated from a host financial asset.

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for loan impairment by replacing the IAS 39 incurred loss approach with the forward-looking expected credit loss (ECL) approach. Starting 1 January 2018, ECLs are a probability-weighted estimate of credit losses, that is, the present value of all future cash shortfalls. The ECL estimate should reflect an objective amount of losses and is to be calculated through analyzing a range of possible scenarios.

The Group uses four key indicators to measure ECLs:

- The Exposure at Default (EAD) is an estimate of exposure at a future default date;
- The Probability of Default (PD) is an estimate of the likelihood of default over a given time horizon;
- The Loss Given Default (LGD) is an estimate of the loss arising on default, based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It usually expressed as a percentage of the EAD;
- The Discount Rate is an instrument used to discount expected losses to their present value at the reporting date. The Discount Rate is the effective interest rate (EIR) of the financial instrument or a rate approximating the EIR.

Lifetime is the maximum period for measuring ECLs. For credit-related commitments and financial guarantees, this period is equal to the maximum period stipulated in the agreement, when an entity has a present contractual obligation to extend a loan. For credit cards issued to individuals, this period is determined using internal statistical data.

Lifetime ECLs (LTECL) comprise losses arising on every possible default event over the remaining life of the financial instrument.

The 12-month ECLs (12mECL) is the portion of LTECL that represents the ECLs that result from default events on a financial instrument, which may occur within the 12 months after the reporting date, or, if shorter, the remaining contractual term of the financial instrument.

Purchased or originated credit impaired (POCI) assets are financial assets that are credit-impaired at initial recognition.

Defaulted and credit-impaired assets. A loan is overdue or credit-impaired if one or more of the following criteria are met:

- A borrower becomes 90 days past due on its contractual payments;
- A borrower account qualifies as doubtful debt and has the following qualitative characteristics:
  - Restructuring on default;
  - Death of a borrower (for loans to individuals);
  - The borrower's insolvency (in case of bankruptcy).

The definition of default given above applies to all types of the Group's financial instruments.

Significant increase in credit risk (SICR). SICR assessment is performed both individually and collectively. Loans to corporate customers and bonds (state, municipal and corporate bonds and bonds of state-owned companies), as well as loans to constituent entities of the Russian Federation and municipalities, interbank loans carried at amortized cost or at FVOCI, are individually assessed for SICR by monitoring events and circumstances listed below. The Group's risk department monitors and analyzes criteria used for SICR identification on a regular basis.

2. Basis of preparation (continued)

Changes in accounting policies (continued)

The Group concludes that there has been a SICR related to a financial asset if one or more of the following quantitative or qualitative criteria are met:

For loans to corporate customers, bonds (state, municipal and corporate bonds and bonds of state-owned companies), loans to constituent entities of the Russian Federation and municipalities, interbank loans:

- 31 to 90 days overdue;
- Inclusion in the list of potentially non-performing loans based on the results of credit risk monitoring procedures.

For loans to individuals:

- 31 to 90 days overdue;
- Loan renegotiation following adverse changes in the borrower's credit standing and measures taken to recover the loan as at the reporting date.

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

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Group classifies financial instruments as follows:

Stage 1:	Financial instruments whose credit risk has not significantly increased since the date of initial recognition. The allowance for such instruments is accrued in the amount equal to the 12mECL, and the respective interest income is calculated based on the gross carrying amount.
Stage 2:	Financial instruments whose credit risk has significantly increased since the date of initial recognition. The allowance for such instruments is accrued in the amount equal to the LTECL, and the respective interest income is calculated based on the gross carrying amount.
Stage 3:	Credit-impaired financial instruments, with the allowance is made in the amount equal to the LTECL and the interest income is accrued based on amortized cost.
POCI assets:	Purchased or originated credit-impaired (POCI) assets are assets that are credit-impaired on initial recognition. POCI financial assets are recorded at fair value at initial recognition, and interest income is subsequently recognized based on a credit-adjusted EIR. ECLs are measured as lifetime, and, at the reporting date, the Group records only cumulative changes in LTECL, which have occurred since the date of initial recognition.

The Group performs assessment of credit-impaired assets on an individual basis.

The Group collectively assesses the following types of loans: consumer loans, credit cards, mortgage loans, car loans, loans to small businesses and other loans to customers. This approach involves splitting the portfolio into homogeneous segments based on borrowers' data, including data on failures to perform payment obligations and historical loss experience.

Principles of individual assessment. When estimating ECLs on an individual basis, the Group calculates PD, LGD and EAD for individual financial instruments. Individual assessment is usually based on expert judgment, which should be regularly reviewed to reduce any differences between estimated and actual losses.

Principles of collective assessment. When assessing an ECL allowance on a collective basis, loans are grouped based on similar credit risk characteristics so that the risk exposure within a group is similar as well.

Such characteristics include, for example, the type of customer or credit product, etc.

The amount of ECLs is determined by estimating credit risk parameters (EAD, PD and LGD) for all future periods over the life of the collectively assessed segment. This method helps to efficiently calculate ECLs for all future periods, which are subsequently discounted to their present value as at the reporting date and aggregated. The discount rate used to calculate ECLs is an initial effective interest rate or a rate approximating it.

2. Basis of preparation (continued)

Changes in accounting policies (continued)

Below is an overview of the key principles for calculating credit risk parameters.

EAD values are determined based on the expected payment schedule depending on the product type.

For the purpose of ECL calculation, two types of PD are used: the12-month and the lifetime PD.

- The 12-month PD (12mPD) is an estimate of the likelihood of default during the 12 months following the reporting date (or over the remaining life of the financial instrument if it is shorter than 12 months). The 12mPD is assessed based on the most recent available data on past default events, and may be adjusted to reflect forecast information.
- The lifetime PD (LTPD) is an estimate of the likelihood of default over the remaining life of the financial instrument. This parameter is assessed based on the most recent available data on past default events, and may be adjusted to reflect forecast information.

When calculating the LTPD, the Group applies statistical methods, depending on the segment and type of product, e.g., building LTPD curves based on historical information on default events, the 12mPD extrapolation based on migration matrices, etc.

The LGD is an estimate of expected losses on defaulted loans, made by the Group on a collective basis, based on the most recent available statistical data on repayments.

(c) Effect of transition to IFRS 9

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

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as at 1 January 2018 is as follows:

		IAS 39 measurement		*Reclassifi-*	*Remeasurement*		*IFRS 9 measurement*	
Financial assets	***Notes***	***Category***	***Amount***	***cation***	***ECL***	***Other***	***Amount***	***Category***
Cash and cash equivalents		L&R[1]	39,962	−	−	−	39,962	AC[2]
Mandatory cash balances with the CBR		L&R	2,975	−	−	−	2,975	AC
Placements with banks		L&R	9,338	−	−	−	9,338	AC
Financial Instruments at fair value through profit or loss (trade securities and derivatives)		FVPL	349,141	−	−	−	349,141	FVPL
Investment securities− equity securities at FVOCI	A	AFS[3]	3,935	−	−	−	3,935	FVOCI (equity instruments)
Loans to customers		L&R	266,245	(883)	(4,197)	−	261,165	AC
To: financial assets at FVOCI	B		−	*(883)*	−	−	*(883)*	
Other financial assets at FVOCI			n/a	883	−	−	883	FVPL
From: loans to customers − amortized cost			−	*883*	−	−	*883*	
Non-financial assets								
Deferred tax asset			459	−	−	−	459	
Total assets			**672,055**	**−**	**(4,197)**	**−**	**667,858**	
Financial liabilities								
Due to banks		AC	194,135	−	−	−	194,135	AC
Due to customers		AC	358,914	−	−	−	358,914	AC
Debt securities issued		AC	15,744	−	−	−	15,744	AC
Other borrowed funds		AC	15,381	−	−	−	15,381	AC
Subordinated debt		AC	6,799	−	−	−	6,799	AC
Derivative financial liabilities		FVPL	317	−	−	−	317	FVPL
Non-financial liabilities								
Deferred tax liability			5,244	−	(840)	−	4,404	
Provisions for financial guarantees		n/a	120	−	−	−	120	n/a
Total liabilities			**596,654**	**−**	**(840)**	**−**	**595,814**	

[1] L&R− loans and receivables.

[2] AC − amortized cost.

[3] AFS− available for sale.

2. Basis of preparation (continued)

Changes in accounting policies (continued)

A The Group has elected to irrevocably designate its previous AFS equity instruments as equity instruments at FVOCI.

B The Group's analysis indicated that as at initial recognition, certain loans to customers did not meet the SPPI criterion. Therefore, the Group reclassified such loans previously measured at amortized cost as financial assets at FVPL as at 1 January 2018.

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

	Reserves and retained earnings
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	78,302
Revaluation on reclassification of financial assets from measured at amortized cost to measured at FVPL	–
Recognition of ECL under IFRS 9, including those for instruments at FVOCI	(4,197)
Related deferred tax	840
Opening balance under IFRS 9 (1 January 2018)	**74,945**
Total changes in equity due to adoption of IFRS 9	**(3,357)**

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

	Allowance for loan impairment under IAS 39 / IAS 37 as at 31 December 2017	*Remeasurement*	*Amortization of credit-impaired assets*	*ECL under IFRS 9 (as at 1 January 2018)*
Allowance for impairment of				
Loans to customers	(9,025)	(4,197)	(2,248)	(15,470)
Financial guarantees	(120)	–	–	(120)
	(9,145)	**(4,197)**	**(2,248)**	**(15,590)**

3. Segment reporting

The Group has two operating segments:

- **Retail banking ("Retail"):** providing mass market financial services to low- and middle-income retail customers residing primarily in small towns. These services include issuance of mortgage, car and consumer loans, credit and installment cards, placement of term deposits and servicing current accounts, as well as a wide range of insurance products provided by third-party insurance companies and pension funds.
- **Corporate and investment banking ("CIB"):** extending loans (both in form of bonds and in form of bilateral loans) and providing investment and commercial banking services to the major Russian corporations, state-owned companies and the constituent entities of the Russian Federation.

CIB services also include providing access to small and medium businesses, individual entrepreneurs to public procurement through Group's proprietary electronic platforms, RTS-Tender.ru, a digital auction platform for public procurement, and Fintender.ru, a platform for online bank guarantees required for public procurement by law.

3. Segment reporting (continued)

Management monitors each segment to assess its performance in order to allocate resources and make management decisions. In 2017, the Group changed its approach to segment reporting and adjusted comparative data for the previous years.

	For the three months ended 31 March 2018 (unaudited)			
	Retail RUB MM	***CIB RUB MM***	***Adjustments and eliminations RUB MM***	***Total RUB MM***
Revenue				
Interest income	7,590	10,202	–	**17,792**
Fee and commission income	3,520	1,090	–	**4,610**
Net gain on financial instruments at fair value through profit or loss	–	1,807	–	**1,807**
Net foreign exchange gain and net gain on currency derivatives	–	168	–	**168**
Other operating income	10	457	–	**467**
Inter-segment revenue	3,444	–	(3,444)	**–**
Total revenue	**14,564**	**13,724**	**(3,444)**	**24,844**
Interest expense	(5,468)	(3,206)	–	**(8,674)**
Obligatory deposit insurance	(435)	(15)	–	**(450)**
Fee and commission expense	(253)	(509)	–	**(762)**
Allowance for credit losses	(1,206)	(121)	–	**(1,327)**
Other impairment and provisions	5	(329)	–	**(324)**
Personnel expenses	(2,774)	(1,079)	–	**(3,853)**
Other expenses	(2,600)	(547)	–	**(3,147)**
Inter-segment expenses	–	(3,444)	3,444	**–**
Segment results	**1,833**	**4,474**	**–**	**6,307**
Income tax expense				**(1,205)**
Profit for the period				**5,102**

	For the three months ended 31 March 2017 (unaudited) (restated)			
	Retail RUB MM	***CIB RUB MM***	***Adjustments and eliminations RUB MM***	***Total RUB MM***
Revenue				
Interest income	4,886	11,378	–	**16,264**
Fee and commission income	3,134	733	–	**3,867**
Net gain on financial instruments at fair value through profit or loss	–	3,292	–	**3,292**
Net foreign exchange gain and net gain on currency derivatives	–	130	–	**130**
Other operating income	12	1,223	–	**1,235**
Inter-segment revenue	4,140	–	(4,140)	**–**
Total revenue	**12,172**	**16,756**	**(4,140)**	**24,788**
Interest expense	(5,144)	(3,234)	–	**(8,378)**
Obligatory deposit insurance*	(276)	(5)	–	**(281)**
Fee and commission expense	(76)	(276)	–	**(352)**
Allowance for credit losses	(718)	235	–	**(483)**
Other impairment and provisions	–	60	–	**60**
Personnel expenses	(2,072)	(772)	–	**(2,844)**
Other expenses	(2,099)	(31)	–	**(2,130)**
Inter-segment expenses	–	(4,140)	4,140	**–**
Segment results	**1,787**	**8,593**	**–**	**10,380**
Income tax expense				**(1,983)**
Profit for the period				**8,397**

* In comparative data for the three months ended 31 March 2017, for comparability purposes, the lines “Inter-segment revenue”, “Obligatory deposit insurance” and “Inter-segment expenses” were presented separately out of “Interest income”, “Other expenses” and “Interest expenses”, respectively.

3. Segment reporting (continued)

The following table presents assets and liabilities of the Group's operating segments:

	31 March 2018 (unaudited)		
	Retail banking RUB MM	***CIB RUB MM***	***Total RUB MM***
Segment assets	158,391	504,481	**662,872**
Segment liabilities	303,280	270,651	**573,931**

	31 December 2017		
	Retail banking RUB MM	***CIB RUB MM***	***Total RUB MM***
Segment assets	156,503	532,996	**689,499**
Segment liabilities	288,271	315,810	**604,081**

4. Net interest income

	For the three months ended 31 March (unaudited)	
	2018 RUB MM	***2017 RUB MM***
Interest income calculated using the EIR method		
Loans to individuals	7,592	5,331
Loans to corporate customers	2,973	4,372
Placements with banks and financial institutions	104	84
Total interest income calculated using the EIR method	**10,669**	**9,787**
Other interest income		
Financial instruments at fair value through profit or loss	6,702	5,158
Swaps denominated in foreign currencies	421	1,319
Total other interest income	**7,123**	**6,477**
Total interest income	**17,792**	**16,264**
Interest expense		
Due to customers	(6,373)	(5,538)
Due to banks	(1,362)	(2,035)
Other borrowed funds	(548)	(507)
Promissory notes and bonds issued	(329)	(244)
Subordinated debt	(62)	(54)
Total interest expense	**(8,674)**	**(8,378)**
Obligatory deposit insurance	(450)	(281)
Net interest income	**8,668**	**7,605**

In the comparative data for the three months ended 31 March 2017, in order to ensure comparability of the current period data, interest income from placements with banks and financial institutions is presented separately, as net income from foreign currency swaps entered into through the Moscow Exchange in order to benefit from financing at interest rates lower than those available in the local currency.

Interest expense on "Other borrowed funds" mainly relates to the interest expense on the loan provided by State Corporation "Deposit Insurance Agency" for the financial rehabilitation of "Express-Volga Bank" JSC (hereinafter, the "EVB") in September 2015.

5. Fee and commission income

	For the three months ended 31 March (unaudited)	
	2018 RUB MM	***2017 RUB MM***
Financial protection program membership fee	2,004	1,918
Plastic card operations	1,079	904
Commission for issuing bank guarantees	683	454
Settlement operations	233	126
Agent fee for selling insurance products	104	62
Other	507	403
	4,610	**3,867**

6. Net foreign exchange gain/(loss)

	For the three months ended 31 March (unaudited)	
	2018 RUB MM	***2017 RUB MM***
Dealing	(750)	3,359
Net gains from currency derivative financial instruments	535	389
Revaluation	383	(3,618)
	168	**130**

"Dealing" represents a gain or loss on foreign currency contracts entered into by the Group through the Moscow Exchange in order to hedge long or short foreign currency positions to comply with the respective regulatory requirements.

"Net gains from currency derivative financial instruments" represents a gain or loss from long-term swap contracts entered into by the Group in order to hedge long or short foreign currency positions to comply with the respective regulatory requirements.

"Revaluation" represents a gain or loss from the revaluation of net assets and liabilities denominated in foreign currencies.

7. Other operating income

	For the three months ended 31 March (unaudited)	
	2018 RUB MM	***2017 RUB MM***
Disposal of property and equipment	78	–
Disposal of foreclosed assets	39	5
Income from operating sublease	6	9
Gain from asset restructuring	–	1,089
Other	27	97
	150	**1,200**

"Gain from asset restructuring" represents cash received by the Group as a result of a conversion of bonds issued by a Russian bank to subordinated debt with the same nominal value and maturity of 2030.

8. Personnel expenses

	For the three months ended 31 March (unaudited)	
	2018 RUB MM	***2017 RUB MM***
Payroll, including bonuses	(3,048)	(2,251)
Payroll-related taxes	(805)	(593)
	(3,853)	**(2,844)**

9. Other general and administrative expenses

	For the three months ended 31 March (unaudited)	
	2018 RUB MM	***2017 RUB MM***
Advertising and marketing	(577)	(236)
Rent	(551)	(447)
Professional and cash collection services	(378)	(291)
Inventory	(291)	(195)
Depreciation and amortization	(247)	(209)
IT support expenses	(224)	(180)
Telecommunication services and postal expenses	(214)	(143)
Use and maintenance of property and equipment	(160)	(124)
Transport and business travel expenses	(158)	(69)
Security	(47)	(49)
Property insurance	(34)	(36)
Taxes other than income tax	(14)	(69)
Other	(107)	(82)
	(3,002)	**(2,130)**

10. Other impairment and provisions

	For the three months ended 31 March (unaudited)	
	2018 RUB MM	***2017 RUB MM***
Contingencies	(79)	150
Litigations	(194)	(39)
Other assets	(307)	(21)
Foreclosed assets	7	(16)
Placements with banks	–	(14)
Impairment of investments in associates	249	–
	(324)	**60**

10. Other impairment and provisions (continued)

The movements in other provisions for the three months ended 31 March 2018 and 2017 were as follows:

	Provisions for other assets	*Provision for litigations*	*Provisions for contingencies*	*Impairment of investments in associates*	*Total*
As at 1 January 2017	**102**	**134**	**710**	**656**	**1,602**
Charge	21	39	(150)	–	**(90)**
Write-off	–	–	–	–	**–**
Redemption of obligations	–	(8)	–	–	**(8)**
As at 31 March 2017 (unaudited)	**123**	**165**	**560**	**656**	**1,504**
As at 1 January 2018	**542**	**1,043**	**573**	**656**	**2,814**
Charge	307	194	79	(249)	**331**
Write-off	(75)	–	–	–	**(75)**
Redemption of obligations	–	(30)	–	–	**(30)**
As at 31 March 2018 (unaudited)	**774**	**1,207**	**652**	**407**	**3,040**

11. Income tax expense

	For the three months ended 31 March (unaudited)	
	2018 RUB MM	*2017 RUB MM*
Current income tax	(2,249)	(2,971)
Origination of temporary differences	1,044	988
	(1,205)	**(1,983)**

The current general income tax rate for legal entities in the Russian Federation is 20%.

12. Cash and cash equivalents

	31 March 2018 (unaudited) RUB MM	*31 December 2017 RUB MM*
Due from the CBR	28,799	24,695
Nostro accounts with Russian banks and other financial institutions	5,360	8,207
Cash on hand	5,614	5,988
Nostro accounts with OECD banks	15	16
Short-term deposits and reverse REPO transactions with Russian banks and other financial institutions maturing in less than 90 days	10,000	921
Short-term deposits with OECD banks maturing in less than 90 days	214	135
	50,002	**39,962**

13. Placements with banks

	31 March 2018 (unaudited) RUB MM	*31 December 2017 RUB MM*
Term deposits with banks	6,786	9,307
Bonds of Russian banks held by the Group	28	32
Total placements with banks	**6,814**	**9,339**
Less allowance for impairment	(1)	(1)
Placements with banks, net	**6,813**	**9,338**

14. Financial instruments at fair value through profit or loss

	31 March 2018 (unaudited) RUB MM	*31 December 2017 RUB MM*
Held by the Group		
Corporate bonds and Eurobonds	94,794	59,467
Bonds of state-owned companies	59,002	43,269
Government and municipal bonds	40,812	27,863
Derivative financial instruments	8,642	9,240
Corporate shares	238	204
Total financial instruments at fair value through profit or loss held by the Group	**203,488**	**140,043**
Pledged under sale and repurchase agreements		
Corporate bonds and Eurobonds	62,674	106,363
Bonds of state-owned companies	30,885	69,301
Government and municipal bonds	16,817	33,434
Total financial instruments at fair value through profit or loss pledged under sale and repurchase agreements	**110,376**	**209,098**
Total financial instruments at fair value through profit or loss	**313,864**	**349,141**

Securities at fair value through profit or loss

The breakdown of securities at fair value through profit or loss by industry is presented in the table below:

	31 March 2018 (unaudited)		*31 December 2017*	
	Amount, RUB MM	*%*	*Amount, RUB MM*	*%*
Government and municipal institutions	57,628	18.9%	61,297	18.0%
Transport and infrastructure	48,999	16.1%	46,464	13.7%
Russian banks, including state-owned banks	44,251	14.4%	59,944	17.6%
Metallurgy	33,132	10.8%	39,157	11.5%
Leasing	21,733	7.1%	20,739	6.1%
Petrochemicals	17,884	5.9%	26,005	7.7%
Diversified holdings and other financial institutions	16,069	5.3%	15,926	4.7%
Manufacturing	15,496	5.1%	15,503	4.6%
Mining	11,855	3.9%	16,031	4.7%
Construction and development	10,375	3.4%	9,242	2.7%
Telecommunications	8,779	2.9%	8,660	2.6%
Services	6,852	2.2%	6,838	2.0%
Trade	5,473	1.8%	4,041	1.2%
Chemical industry	3,975	1.3%	5,893	1.7%
Agriculture and food processing	2,017	0.7%	3,784	1.1%
Energy	298	0.1%	–	0.0%
Other	406	0.1%	377	0.1%
	305,222	**100.0%**	**339,901**	**100.0%**

14. Financial instruments at fair value through profit or loss (continued)

Securities at fair value through profit or loss (continued)

The breakdown of securities at fair value through profit or loss by long-term issuer credit rating assigned by international rating agencies (S&P, Fitch or Moody's) is presented in the table below. If a security or an issuer has credit ratings from several international rating agencies, only the highest rating is taken into account:

	31 March 2018 (unaudited) RUB MM	*31 December 2017 RUB MM*
Securities at fair value through profit or loss		
Issuers with credit rating from BBB+ to BBB-	82,938	85,953
Issuers with credit rating from BB+ to BB-	156,223	184,003
Issuers with credit rating from B+ to B-	45,783	51,533
Unrated issuers	20,278	18,412
Total securities at fair value through profit or loss	**305,222**	**339,901**

As at 31 March 2018, maturities of these securities were within the following range: April 2018 − August 2049 (31 December 2017: January 2018 − August 2049), the coupon rates were from 3.72% to 12.5% for USD-denominated debt securities, 7.49% for GBP-denominated debt securities, and from 0.1% to 15.0% for RUB-denominated debt securities (31 December 2017: from 3.72% to 11.0% for USD-denominated debt securities, 7.49% for GBP-denominated debt securities, and from 6.29% to 17.0% for RUB-denominated debt securities).

As at 31 March 2018, the share of the largest issuer in the aggregate portfolio of securities at fair value through profit or loss was 7.65%. Maturity of bonds of this issuer ranged from April 2020 to April 2041; coupon rate was 5.7%-9.85% (31 December 2017: the share of the largest issuer (a state-owned financial institution) was 6.21%, maturity dates ranged from March 2018 to September 2032; coupon rate was 4.5%-9.75%).

Derivative financial instruments

The Group manages interest and currency risks by entering into derivative financial instruments (swaps) for trading purposes.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities in the financial statements, and their notional amounts:

	31 March 2018 (unaudited)			*31 December 2017*		
	Notional	*Fair value*		*Notional*	*Fair value*	
	amount RUB MM	*Asset RUB MM*	*Liability RUB MM*	*amount RUB MM*	*Asset RUB MM*	*Liability RUB MM*
Interest rate swaps− foreign contracts	84,580	3,432	−	68,544	2,056	−
Interest rate swaps− domestic contracts	42,720	1,735	−	28,800	1,241	−
Currency swaps− foreign contracts	1,432	−	6	−	−	−
Currency swaps− domestic contracts	51,538	3,304	253	67,392	5,943	−
Credit default swaps − foreign contracts	22,333	154	913	15,552	−	317
Commodity contracts − foreign contracts	2,751	−	48	−	−	−
Commodity contracts − domestic contracts	395	17	−	−	−	−
Total derivative assets/liabilities	**205,749**	**8,642**	**1,220**	**180,288**	**9,240**	**317**

15. Loans to customers

	31 March 2018 (unaudited) RUB MM	31 December 2017 RUB MM
Loans to individuals		
Consumer loans	47,031	47,653
Car loans	60,458	56,706
Mortgages	33,353	30,228
Credit cards	9,347	9,222
Total loans to individuals	**150,189**	**143,809**
Loans to corporate customers		
Loans to constituent entities and municipalities of the Russian Federation	15,838	24,887
Loans to corporate customers	87,262	83,262
Bonds of state-owned companies	5,746	5,933
Corporate bonds	10,748	10,551
Loans to small businesses and other loans to customers*	4,120	2,530
Government and municipal bonds	3,624	4,298
Total loans to corporate customers	**127,338**	**131,461**
Total loans to customers measured at amortized cost	**277,527**	**275,270**
Less: allowance for loan impairment	(16,376)	(9,025)
Loans to customers measured at amortized cost, net	**261,151**	**266,245**

* This group also includes loans to individuals issued on individual terms, not exceeding RUB 200 MM.

Allowance for impairment of loans to customers measured at amortized cost

The table below shows the analysis of movements in the allowances for ECL under the loans to individuals for the three months ended 31 March 2018 (unaudited). Description of the credit risk measurement system used by the Group and its approach towards ECL measurement are disclosed in Note 2.

Consumer loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Balance as at 1 January 2018	**1,640**	**412**	**5,423**	**7,475**
Transfers to Stage 2	(37)	37	–	**–**
Transfers to Stage 3	(17)	(316)	333	**–**
Reversal/(charge) for the period	208	265	(106)	**367**
Write-offs	–	–	(553)	**(553)**
Unwinding of discount	–	–	221	**221**
Recovery of amounts previously written off	–	–	73	**73**
Balance as at 31 March 2018	**1,794**	**398**	**5,391**	**7,583**

Car loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Balance as at 1 January 2018	**958**	**205**	**539**	**1,702**
Transfers to Stage 2	(19)	19	–	**–**
Transfers to Stage 3	(5)	(139)	144	**–**
Reversal/(charge) for the period	(23)	175	198	**350**
Write-offs	–	–	(126)	**(126)**
Unwinding of discount	–	–	8	**8**
Recovery of amounts previously written off	–	–	328	**328**
Balance as at 31 March 2018	**911**	**260**	**1,091**	**2,262**

15. Loans to customers (continued)

Allowance for impairment of loans to customers carried at amortized cost (continued)

Mortgages	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Balance as at 1 January 2018	**812**	**129**	**585**	**1,526**
Transfers to Stage 2	(15)	15	–	**–**
Transfers to Stage 3	(6)	(91)	97	**–**
Reversal/(charge) for the period	27	105	64	**196**
Write-offs	–	–	(10)	**(10)**
Unwinding of discount	–	–	4	**4**
Recovery of amounts previously written off	–	–	95	**95**
Balance as at 31 March 2018	**818**	**158**	**835**	**1,811**

Credit cards	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Balance as at 1 January 2018	**666**	**97**	**577**	**1,340**
Transfers to Stage 2	(17)	17	–	**–**
Transfers to Stage 3	(76)	(87)	163	**–**
Reversal/(charge) for the period	27	46	(14)	**59**
Write-offs	–	–	(143)	**(143)**
Unwinding of discount	–	–	3	**3**
Recovery of amounts previously written off	–	–	18	**18**
Balance as at 31 March 2018	**600**	**73**	**604**	**1,277**

The table below shows the analysis of movements in the allowances for ECL under the loans to corporate customers for the three months ended 31 March 2018 (unaudited). Description of the credit risk measurement system used by the Group and its approach towards ECL measurement are disclosed in Note 2.

Loans to corporate customers, government and municipal bonds, corporate bonds and bonds of companies with an interest held by the state	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Balance as at 1 January 2018	**2,965**	**–**	**–**	**2,965**
Transfers to Stage 2	–	–	–	**–**
Transfers to Stage 3	–	–	–	**–**
Reversal/(charge) for the period	(20)	–	–	**(20)**
Write-offs	–	–	–	**–**
Recovery of amounts previously written off	–	–	–	**–**
Balance as at 31 March 2018	**2,945**	**–**	**–**	**2,945**

Loans to constituent entities and municipalities of the Russian Federation	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Balance as at 1 January 2018	**115**	**–**	**–**	**115**
Transfers to Stage 2	–	–	–	**–**
Transfers to Stage 3	–	–	–	**–**
Reversal/(charge) for the period	(46)	–	–	**(46)**
Write-offs	–	–	–	**–**
Recovery of amounts previously written off	–	–	–	**–**
Balance as at 31 March 2018	**69**	**–**	**–**	**69**

Loans to small business and other loans to customers	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Balance as at 1 January 2018	**75**	**12**	**260**	**347**
Transfers to Stage 2	(1)	1	–	**–**
Transfers to Stage 3	–	(2)	2	**–**
Reversal/(charge) for the period	2	77	342	**421**
Write-offs	–	–	(339)	**(339)**
Recovery of amounts previously written off	–	–	–	**–**
Balance as at 31 March 2018	**76**	**88**	**265**	**429**

15. Loans to customers (continued)

Allowance for impairment of loans to customers measured at amortized cost (continued)

Movements in the allowance for loan impairment for the three months ended 31 March 2017 (unaudited) are presented in a table below. Comparative amounts for the year ended 31 December 2017 comprise credit losses and reflect the results of assessment in accordance with IAS 39.

	Loans to corporate customers and bonds (state, municipal, corporate bonds and bonds of companies with an interest held by the state)	*Loans to small businesses and other loans to customers*	*Consumer loans*	*Credit cards*	*Loans to constituent entities and municipalities of the Russian Federation*	*Mortgages*	*Car loans*	*Total*
As at 1 January 2017	**(1,143)**	**(189)**	**(4,848)**	**(829)**	**(361)**	**(357)**	**–**	**(7,727)**
Reversal/(charge) for the period	65	170	(408)	(119)	124	(124)	(191)	**(483)**
Reversal of amounts previously written off	(100)	(255)	–	–	–	(60)	–	**(415)**
Loans written off as uncollectible	–	–	570	203	–	–	–	**773**
As at 31 March 2017	**(1,178)**	**(274)**	**(4,686)**	**(745)**	**(237)**	**(541)**	**(191)**	**(7,852)**
Individual impairment	(215)	–	–	–	–	–	–	**(215)**
Collective impairment	(963)	(274)	(4,686)	(745)	(237)	(541)	(191)	**(7,637)**
	(1,178)	**(274)**	**(4,686)**	**(745)**	**(237)**	**(541)**	**(191)**	**(7,852)**
Total amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**1,073**	**–**	**–**	**–**	**–**	**–**	**–**	**1,073**

Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals as at 31 March 2018 (unaudited):

	Gross loans RUB MM	*Impairment RUB MM*	*Net loans RUB MM*	*Impairment to gross loans %*
Consumer loans	47,031	(7,583)	39,448	16.12%
Credit cards	9,347	(1,277)	8,070	13.66%
Mortgages	33,353	(1,811)	31,542	5.43%
Car loans	60,458	(2,262)	58,196	3.74%
Total loans to individuals	**150,189**	**(12,933)**	**137,256**	**8.61%**

The following table provides information on the credit quality of loans to individuals as at 31 December 2017 (unaudited):

	Gross loans RUB MM	*Impairment RUB MM*	*Net loans RUB MM*	*Impairment to gross loans %*
Consumer loans	47,653	(4,364)	43,289	9.16%
Credit cards	9,222	(1,081)	8,141	11.72%
Mortgages	30,228	(700)	29,528	2.32%
Car loans	56,706	(1,012)	55,694	1.78%
Total loans to individuals	**143,809**	**(7,157)**	**136,652**	**4.98%**

15. Loans to customers (continued)

Credit quality of loans to corporate customers

The following table provides information on the credit quality of loans to corporate customers as at 31 March 2018 (unaudited):

	Gross loans RUB MM	*Impairment RUB MM*	*Net loans RUB MM*	*Impairment to gross loans %*
Loans to corporate customers				
Unimpaired loans	**122,899**	**(1,064)**	**121,835**	**0.87%**
Impaired loans				
Individual impairment	3,351	(2,014)	1,337	60.10%
Collective impairment	1,088	(365)	723	33.55%
Total impaired loans	**4,439**	**(2,379)**	**2,060**	**53.59%**
Total loans to corporate customers	**127,338**	**(3,443)**	**123,895**	**2.70%**

The following table provides information on the credit quality of loans to corporate customers as at 31 December 2017:

	Loans, gross RUB MM	*Impairment RUB MM*	*Net loans RUB MM*	*Impairment to gross loans %*
Loans to corporate customers				
Unimpaired loans	**128,113**	**(1,007)**	**127,106**	**0.79%**
Impaired loans				
Individual impairment	3,010	(698)	2,312	23.19%
Collective impairment	338	(163)	175	48.22%
Total impaired loans	**3,348**	**(861)**	**2,487**	**25.72%**
Total loans to corporate customers	**131,461**	**(1,868)**	**129,593**	**1.42%**

16. Investment securities

As at 31 March 2018 and 31 December 2017, the Group's investments measured at fair value through other comprehensive income included equity instruments of Russian companies and/or their foreign holdings.

	31 March 2018 (unaudited) RUB MM	*31 December 2017 RUB MM*	*Ownership interest as at 31 March 2018 (unaudited) %*	*Ownership interest as at 31 December 2017 %*
Credit institutions	3,074	3,074	15.54%	15.54%
Companies				
- Investments in shares	111	111	3.70% to 6.79%	3.70% to 6.79%
Investments in shares as part of mezzanine lending	580	750	2.23% to 25.00%	4.41% to 25.00%
	3,765	**3,935**		

17. Due to customers

	31 March 2018 (unaudited) RUB MM	*31 December 2017 RUB MM*
Individuals		
Term deposits	300,945	281,762
Current accounts and demand deposits	14,428	20,879
Legal entities		
Term deposits	52,625	28,155
Current accounts and demand deposits	33,505	28,118
	401,503	**358,914**

As at 31 March 2018 and 31 December 2017, the ten largest customers of the Group placed the total of RUB 44,368 MM and RUB 30,497 MM current accounts and term deposits, 11.1% and 8.5% of total due to customers, respectively.

As at 31 March 2018 and 31 December 2017, the Group did not have a customer accounting for more than 10% of total due to customers.

18. Due to banks

	31 March 2018 (unaudited) RUB MM	*31 December 2017 RUB MM*
Sale and repurchase agreements with other banks	97,022	180,056
Deposits	9,386	11,822
Loro accounts	1,546	2,257
	107,954	**194,135**

As at 31 March 2018 and 31 December 2017, the Group pledged the following securities as collateral for sale and repurchase agreements with other banks:

	31 March 2018 (unaudited)	*31 December 2017*
	Sale and repurchase agreements with other banks RUB MM	*Sale and repurchase agreements with other banks RUB MM*
Financial instruments at fair value through profit or loss pledged under repurchase agreements		
Corporate bonds and Eurobonds	62,674	106,363
Government and municipal bonds	16,817	33,434
Bonds of state-owned companies	30,885	69,301
Total carrying amount	**110,376**	**209,098**
Loans to customers pledged under sale and repurchase agreements		
Corporate bonds	–	–
Government and municipal bonds	3,040	3,271
Bonds of state-owned companies	–	245
Total carrying amount	**3,040**	**3,516**
Related liabilities	**97,022**	**180,056**

19. Debt securities issued

	31 March 2018 (unaudited) RUB MM	*31 December 2017 RUB MM*
Bonds	13,619	14,394
Promissory notes	745	1,291
Saving certificates	6	59
	14,370	**15,744**

20. Other borrowed funds

On 21 September 2015, as a result of an open tender, the DIA appointed Sovcombank as an investor for the financial rehabilitation of JSC Express-Volga Bank ("EVB").

On 23 September 2015, the DIA provided Sovcombank with a loan of RUB 49,850 MM bearing an interest rate of 0.51% and maturing on 23 September 2025. The purpose of the loan was to implement bankruptcy prevention measures in respect of EVB in accordance with the financial rehabilitation plan approved by the Board of Directors of the CBR on 12 August 2015 (the "DIA Loan").

As at 31 March 2018, loans to individuals and corporate customers totaling RUB 45,241 MM (31 December 2017: RUB 45,270 MM) were pledged by the Group as a collateral for the DIA loan.

From the date of issuance of the DIA loan to 31 March 2018, Sovcombank repaid a part of the loan of RUB 9,008 MM because OJSC Probusinessbank (the parent bank of EVB) partially settled its liabilities towards EVB as a result of bankruptcy procedures carried out by the DIA in respect of OJSC Probusinessbank, so Sovcombank repaid the respective amount to the DIA.

The DIA loan was issued to Sovcombank at the rate of 0.51% p.a., i.e. significantly below the market rate. According to IAS 9, loans issued at interest rates other than market interest rates are measured at the date of issuance at fair value, which includes future interest payments and principal debt discounted on the basis of market interest rates. As at the date of issuance of the DIA loan, the market interest rate used by Sovcombank for similar loans was 14.9%. As at 31 March 2018, the fair value of the DIA loan of RUB 15,388 MM (31 December 2017: RUB 14,920 MM) was recorded within "Other borrowed funds".

	31 March 2018 (unaudited) RUB MM	*31 December 2017 RUB MM*
DIA loan	15,388	14,920
Other borrowed funds	–	461
	15,388	**15,381**

21. Subordinated debt

Type	*Principal, loan currency, thousand*	*Currency*	*Counterparty*	*Interest rate*	*Issue date*	*Maturity date*	*31 March 2018 (unaudited) RUB MM*	*31 December 2017 RUB MM*
Perpetual subordinated loan	117,300	USD	Sovco Capital Partners N.V.	9.00%	21 March 2017	2 April 2018	6,759	6,799
Subordinated debt	1,254,550	RUB	State Corporation Deposits Insurance Agency	10.12%	27 April 2015	22 January 2025	1,362	–
Subordinated debt	105,979	RUB	State Corporation Deposits Insurance Agency	9.96%	27 April 2015	24 February 2027	118	–
Subordinated debt	701,675	RUB	State Corporation Deposits Insurance Agency	11.23%	27 April 2015	26 September 2029	801	–
Subordinated debt	1,254,550	RUB	State Corporation Deposits Insurance Agency	11.05%	27 April 2015	28 April 2032	1,467	–
Subordinated debt	1,254,550	RUB	State Corporation Deposits Insurance Agency	10.92%	27 April 2015	29 November 2034	1,466	–
Subordinated bonds	150,000	USD	–	8.25%	7 March 2018	21 February 2029	8,636	–
							20,609	**6,799**

21. Subordinated debt (continued)

Subordinated loan provided by Sovco Capital Partners N.V.

As at 31 March 2018, the principal amount of the perpetual subordinated loan provided by Sovco Capital Partners N.V. was USD 117.3 MM or RUB 6,717 MM (31 December 2017: USD 117.3 MM or RUB 6,757 MM); and related accrued interest was USD 0.7 MM or RUB 42 MM (31 December 2017: USD 0.7 MM or RUB 42 MM). As at 31 March 2018, the total amount of the perpetual subordinated loan (including its principal and accrued interest) was USD 118 MM or RUB 6,759 MM (31 December 2017: USD 118 MM or RUB 6,799 MM).

According to the subordinated loan agreement with Sovco Capital Partners N.V., the Bank may decide whether to pay the interest at its sole discretion. For this reason, the interest expense is recognized as dividends for IFRS reporting purposes.

On 26 March 2018, the CBR approved the Bank's request to convert a perpetual subordinated loan of USD 117 MM issued by Sovco Capital Partners N.V. to Bank's core capital. The Bank formally increased its core capital in accordance with the CBR's approval of 2 April 2018.

Subordinated loans provided by the DIA

On 27 January 2015, the Russian Government issued a Decision No. 98-r approving the Plan of Priority Measures to Ensure Sustainable Development of the Economy and Social Stability in 2015 (the "Anti-crisis Plan"). On 23 January 2015, the Board of Directors of the DIA approved a list of banks, including Sovcombank, selected to participate in the Anti-crisis Plan. The key element of the Anti-crisis Plan was a provision of subordinated loans with low interest rate to participating banks in order to re-start lending in priority economic segments chosen by the Russian Government.

On 27 April 2015, the DIA issued to Sovcombank five tranches of a subordinated loan totaling RUB 6,273 MM in the form of Russian state bonds (OFZ) issued by the Ministry of Finance of the Russian Federation. These tranches have maturities of 12 to 19 years. The CBR confirmed that the Bank is to include this subordinated loan into the Bank's capital for prudential purposes. The Bank sold some of its securities and therefore as at 31 March 2018, subordinated debt is recorded in liabilities at fair value.

Subordinated bonds issued

On 7 March 2018, the Bank placed 11-years subordinated bonds series 2V03 of USD 150 MM with a coupon rate of 8.25% p.a. (State Registration Number 41400963V of 22 January 2018).

On 26 March 2018, the Bank included the subordinated bonds series 2V03 into the additional Tier 2 capital after the Bank received an approval from the CBR.

Perpetual subordinated bonds issued

On 7 March 2018, the Bank placed perpetual subordinated bonds series 1V02 of USD 100 MM (State Registration Number 41000963V of 22 January 2018).

The coupon rates for coupons 1-11 are set at 8.75% p.a.; the interest rate for further coupons is determined by the formula: Ck = R + m + 100 basis points, where:

- "Ck" is a coupon interest rate of the k-th coupon ("k" represents coupon number);
- "R" equals to a yield of 7-year U.S. treasury bonds one working day prior to the date of determining of a new coupon interest rate;
- "m" equals 900 basis points.

On 26 March 2018, the Bank included subordinated bonds series 1V02 into the additional Tier 1 capital after the Bank received a relevant approval from the CBR.

As this instrument qualifies for the criterion of the capital component in accordance with IAS 32 *Financial Instruments: Presentation*, as at 31 March 2018 the Group classified its issued perpetual subordinated bonds as equity.

The Group records USD-denominated perpetual subordinated bonds in ruble equivalents at the CBR exchange rates at the placement date with recognition of the translation effect within retained earnings.

For IFRS reporting purposes, interest expense related to the perpetual subordinated loan is recognized as dividends because the Bank may pay the interest on the perpetual subordinated loan solely the Bank's discretion.

22. Equity

As at 31 March 2018 and 31 December 2017, the Group's share capital was RUB 1,716 MM.

As at 31 March 2018 and 31 December 2017, the total number of authorized ordinary shares with a nominal value of RUB 0.1 each was 17,155,942,700.

The Bank's share capital was contributed by the shareholder in Russian rubles. The shareholder is entitled to dividends and any capital distribution in Russian rubles.

For the three months of 2018, Sovcombank paid dividends of RUB 3,820 MM (for the three months of 2017: RUB 3,053 MM). For the three months of 2018, Sovcombank paid interest on the perpetual subordinated loan of RUB 149 MM. This interest expense is recognized as dividends for the IFRS reporting purposes.

23. Commitments

At any time, the Group may have outstanding commitments to extend loans. These commitments take the form of approved loans, credit card limits and overdraft facilities.

The Group provides bank guarantees to ensure that its customers meet their liabilities to third parties. These agreements have fixed limits and generally extend for a period of up to one year.

The commitments by category were as follows:

Contractual amount*	***31 March 2018 (unaudited) RUB MM***	***31 December 2017 RUB MM***
Bank guarantees	83,932	112,686
Loan and credit line commitments	155,397	152,412
	239,329	**265,098**
Provisions for contingencies	(652)	(573)

* The contractual amounts shown in the table assume that commitments will be settled in full.

As at 31 March 2018, the total amount of guarantees issued by the Group to small and medium businesses in accordance with Federal Law No. 44-FZ, *On the Contract System for the Procurement of Goods, Work and Services for Public and Municipal Needs* and Federal Law No. 223-FZ, *On Purchases of Goods, Work and Services by Certain Types of Legal Entities* was RUB 51,983 MM (31 December 2017: RUB 84,844 MM).

As at 31 March 2018, the total amount of unused bank guarantees approved by the Group was RUB 36,011 MM (31 December 2017: RUB 27,073 MM).

Overall contractual commitments to issue loans rarely result in actual cash outflow as such commitments may be annulled or may expire without actual funding being provided. In addition, the majority of the Group's loan agreements provide that the Group may unilaterally refuse to extend a loan without giving any reason.

24. Contingencies

Litigation related to JSC Express-Volga Bank

In August 2015, the Bank of Russia revoked the banking license of OJSC Probusinessbank ("Probusinessbank"). In September 2015, Sovcombank won an open tender and became an investor for the financial rehabilitation of EVB. In September 2015, the DIA included EVB, the Bank's subsidiary at that date, into the register of Probusinessbank's creditors. In October 2015, the Moscow Arbitration Court declared Probusinessbank bankrupt.

In October 2017, a group of minority creditors of Probusinessbank challenged the inclusion of EVB in the register of Probusinessbank's creditors at the court of primary jurisdiction. The DIA and EVB did not agree with the court ruling and filed appeals. In December 2017, the court of second instance canceled the ruling of the court of first instance based on the appeals and ruled to reject the claims of minority creditors. The minority creditors challenged the ruling of the court of second instance at the court of third instance, which in March 2018 upheld the ruling of the court of second instance. Based on the above, the Group did not make a provision for this claim.

24. Contingencies (continued)

Litigation related to JSC Express-Volga Bank (continued)

In 2017, minority creditors of Probusinessbank challenged actions of the receiver of Probusinessbank (the DIA's representative) with regard to transactions relating to the period before the date on which Probusinessbank was declared bankrupt by the Arbitration Court. In December 2017, the Group estimated the risk of cash outflow from EVB as possible and created a provision of RUB 755 MM in respect of this litigation. The provision covers the entire amount of possible cash outflow from the Group into Probusinessbank's insolvency estate in respect of this litigation, leaving out possible return of funds to the Group from Probusinessbank's insolvency estate. The Group's management believes that accrued provisions for legal proceedings cover the entire amount of possible risks and litigation costs.

In November 2016, Sovcombank won an open auction organized by the Deposit Insurance Agency to acquire a bank "Poidem!" OJSC, previously a member of Probusinessbank group. The funds raised as a result of the auction went into Probusinessbank's insolvency estate and subsequently were allocated to all its creditors. In 2016, Sovcombank signed an agreement to sell 100% of shares of OJSC Poidem! to the management of this Bank. In November 2017, minority creditors of Probusinessbank challenged the sale of shares of OJSC Poidem! by the Deposit Insurance Agency to Sovcombank in November 2016. According to the court ruling in December 2017, the auction results remained in force. In March 2018, the court of second instance denied an appeal before the court. Based on the above, the Group did not make a provision for this claim.

In February 2018, minority creditors of Probusinessbank filed a request to declare several transactions related to Probusinessbank's repayment of interbank loans to EVB in the amount of RUB 46 BN (the "Transactions") void. Minority creditors apply to the court to declare repayment of interbank loans by Probusinessbank void and to recover RUB 46 BN from EVB to Probusinessbank's insolvency estate. Minority creditors believe that the Transactions resulted in EVB gaining preference in satisfaction of its claims, as the transactions were closed shortly before Probusinessbank was declared bankrupt. Should the court uphold the claim of minority creditors, EVB's rights of claim from Probusinessbank will increase by the same amount.

Management believes that the Group will not experience an outflow of economic benefits, since the matters described in the court claim by minority creditors are inconsistent with the actual circumstances of 2015. Based on the above, the Group did not provide for this claim.

Tax contingencies

Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently and may apply retrospectively. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant state authorities. The tax authorities may be taking a more assertive position in their interpretation and application of this legislation and assessments. It is therefore possible that transactions and activities of the Group that were challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities. Fiscal periods remain open and subject to review for a period of three calendar years immediately preceding the year in which the decision to conduct a tax audit is taken. Under certain circumstances, audits may cover earlier periods.

On 19 August 2017, amendments were made to the tax legislation prohibiting taxpayers from reducing tax base as a result of distortion of facts with regard to business operations and taxable activities or due to operations with a primary objective of non-payment or underpayment of taxes. As there is no well-established practice for applying the above provisions, there is uncertainty regarding the procedure for application of the new rules and their possible interpretation by the Russian tax authorities with regard to the Group's operations, including banking activities and financial market operations, as well as purchase and sale of securities and other property rights. It is possible that with the evolution of these rules and changes in the approach of the Russian tax authorities and/or courts to their interpretation and enforcement, additional taxes and related fines and penalties may be assessed, which could negatively impact the financial condition of the Group. The details of such contingent liabilities are not disclosed in the financial statements because of the uncertainty of the potential outcome in case of different interpretation of tax law by tax authorities. Management though believes that the Group's tax position is sustained and documented, therefore, management believes that its interpretation of the relevant legislation is appropriate as at 31 March 2018.

Russian transfer pricing legislation allows Russian tax authorities to apply tax base adjustments and impose additional income tax and VAT liabilities in respect of "controlled" transactions if the controlled transaction price differs from the market price. In 2018, the Group determined its tax liabilities arising from controlled transactions on the basis of actual transaction prices or by adjusting actual prices in accordance with transfer pricing rules (if applicable).

24. Contingencies (continued)

Tax contingencies (continued)

From 1 January 2015, the Russian tax legislation was amended to include the terms "tax residency" in respect of foreign legal entities, "beneficiary owner" and taxation rules for retained earnings of controlled foreign companies in the Russian Federation. These changes should increase the administrative and, in some cases, tax burden on Russian taxpayers that have foreign subsidiaries and/or pay income from sources in the Russian Federation to foreign entities. There is uncertainty regarding the procedure for application of the new rules, their possible interpretation by the Russian tax authorities and the effect on the amount of the tax liabilities of the Group.

The management of the Group believes that its interpretation of the relevant legislation is appropriate and that the Group's position in respect of tax, currency and customs legislation will be sustained.

25. Related party transactions

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

Total remuneration included in employee benefits (Note 8) is as follows:

	For the three months ended 31 March (unaudited)	
	2018 RUB MM	***2017 RUB MM***
Members of the Supervisory Board	62	118
Management Board	299	234
	361	**352**

The outstanding balances with related parties as at 31 March 2018 were as follows (unaudited):

	Shareholder of the parent group[(1)] RUB MM	***Joint venture[(2)] RUB MM***	***Key management personnel[(3)] RUB MM***	***Other related parties[(4)] RUB MM***	***Total RUB MM***
Loans	**−**	**623**	**482**	**3,743**	**4,848**
Less − allowance for impairment	−	(8)	(8)	(933)	**(949)**
Loans, net	**−**	**615**	**474**	**2,810**	**3,899**
Deposits	−	−	45	268	**313**
Financial instruments at fair value through profit or loss	1,174	1,931	−	−	**3,105**
Current accounts	239	9	239	669	**1,156**
Subordinated debt	6,759	−	−	−	**6,759**
Other liabilities	−	−	1,507	−	**1,507**
Guarantees received	−	1,850	40	13,415	**15,305**

25. Related party transactions (continued)

Outstanding balances with related parties as at 31 December 2017 were as follows:

	Shareholder of the parent group[(1)] RUB MM	*Joint venture[(2)] RUB MM*	*Key management personnel[(3)] RUB MM*	*Other related parties[(4)] RUB MM*	*Total RUB MM*
Loans	**–**	**502**	**492**	**3,323**	**4,317**
Less – allowance for impairment	–	(6)	(9)	(49)	**(64)**
Loans, net	**–**	**496**	**483**	**3,274**	**4,253**
Deposits	–	–	73	205	**278**
Financial instruments at fair value through profit or loss	1,775	1,922	–	–	**3,697**
Current accounts	43	24	403	290	**760**
Other borrowed funds	–	–	461	–	**461**
Subordinated debt	6,799	–	–	–	**6,799**
Other liabilities	–	–	1,713	–	**1,713**
Guarantees received	–	1,004	–	11,805	**12,809**

The amounts recognized with regard to related party transactions in the interim condensed consolidated statement of comprehensive income for the three months ended 31 March 2018 (unaudited) are presented in the table below:

	Shareholder of the parent group[(1)] RUB MM	*Joint venture[(2)] RUB MM*	*Key management personnel[(3)] RUB MM*	*Other related parties[(4)] RUB MM*	*Total RUB MM*
Interest income	–	13	16	94	**123**
Interest income on financial instruments at fair value through profit or loss	34	55	–	–	**89**
Interest expense on deposits	–	–	(1)	(4)	**(5)**
Credit loss expenses	–	(2)	1	(884)	**(885)**
Fee and commission income	–	4	–	22	**26**
Gains less losses from foreign currencies	32	–	1	(7)	**26**
General and administrative expenses	–	(5)	(1)	–	**(6)**

The amounts recognized with regard to related party transactions in the interim condensed consolidated statement of comprehensive income for the three months ended 31 March 2017 (unaudited) are presented in the table below:

	Shareholder of the parent group[(1)] RUB MM	*Joint venture[(2)] RUB MM*	*Key management personnel[(3)] RUB MM*	*Other related parties[(4)] RUB MM*	*Total RUB MM*
Interest income	59	31	19	107	**216**
Interest income on financial instruments at fair value through profit or loss	48	21	–	–	**69**
Interest expense on deposits	–	–	(4)	(41)	**(45)**
Interest expense on subordinated debt	(1)	–	–	–	**(1)**
Allowance for credit losses	–	(1)	(10)	(4)	**(15)**
Fee and commission income	–	10	–	1	**11**
Gains less losses from foreign currencies	(2)	–	(1)	(5)	**(8)**
General and administrative expenses	–	(2)	–	–	**(2)**

(1) Sovco Capital Partners N.V. holds 100% of the Group's shares (Note 1).

(2) Sollers-Finance LLC is a joint venture that provides car leasing services. Sollers-Finance LLC (one of the largest car manufacturers in Russia) and the Group are engaged in joint operations and have equal shares (50/50) in the joint venture.

(3) Key management personnel are those with authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel of the Group are members of the Management Board and the Supervisory Board.

(4) Other related parties mainly comprise companies under significant influence of the key management personnel.

26. Fair value of financial instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 7 *Financial Instruments: Disclosures*. Fair value is defined as the amount for which a financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction other than in forced sale or liquidation. As no readily available market exists for a large part of the Group's financial instruments (specifically extended loans) at which such financial assets would be traded on a regular basis, judgment is necessary in arriving at fair value based on current economic conditions and the specific risks attributable to a given instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: techniques, which use inputs, which have a significant effect on the recorded fair value, that are not based on observable market data.

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

	Fair value measurement using			
As at 31 March 2018 (unaudited)	***Quoted prices in active markets (Level 1) RUB MM***	***Significant observable inputs (Level 2) RUB MM***	***Significant unobservable inputs (Level 3) RUB MM***	***Total RUB MM***
Assets measured at fair value				
Financial instruments at fair value through profit or loss	25,556	288,308	–	**313,864**
Investment securities	–	–	3,765	**3,765**
Investment property	–	–	58	**58**
Property and equipment and intangible assets	–	–	696	**696**
Assets held for sale	–	–	7	**7**

	Fair value measurement using			
As at 31 December 2017	***Quoted prices in active markets (Level 1) RUB MM***	***Significant observable inputs (Level 2) RUB MM***	***Significant unobservable inputs (Level 3) RUB MM***	***Total RUB MM***
Assets measured at fair value				
Financial instruments at fair value through profit or loss	46,817	302,324	–	**349,141**
Investment securities	–	–	3,935	**3,935**
Investment property	–	–	58	**58**
Property and equipment and intangible assets	–	–	718	**718**
Assets held for sale	–	–	425	**425**

Financial assets at fair value through profit or loss

Trading securities valued using a valuation technique primarily consist of equity and debt securities for which no market quotations are available. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

26. Fair value of financial instruments (continued)

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

Changes in Level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing balances of Level 3 financial assets and liabilities, which are recorded at fair value as at 31 March 2018 (unaudited):

	As at 1 January 2018	*Gains recorded in the statement of profit or loss*	*Gains/ (losses) recorded in other comprehensive income*	*Acquisitions*	*Sales*	*Settlements*	*Transfers from Level 1 and Level 2*	*As at 31 March 2018*
Financial assets								
Investment securities	3,935	(141)	98	–	(127)	–	–	3,765
Total Level 3 financial assets	**3,935**	**(141)**	**98**	**–**	**(127)**	**–**	**–**	**3,765**

The following table shows a reconciliation of the 2017 opening and closing balances of Level 3 financial assets and liabilities, which are recorded at fair value:

	As at 1 January 2017	*Gains/ (losses) recorded in the statement of profit or loss*	*Gains/ (losses) recorded in other comprehensive income*	*Acquisitions*	*Sales*	*Settlements*	*Transfers from Level 1 and Level 2*	*Transfers to associates*	*As at 31 December 2017*
Financial assets									
Financial instruments at fair value through profit or loss	–	1,089	–	5	(1,090)	(4)	–	–	–
Investment securities	7,086	1,024	(977)	2,803	(300)	–	–	(5,701)	3,935
Total Level 3 financial assets	**7,086**	**2,113**	**(977)**	**2,808**	**(1,390)**	**(4)**	**–**	**(5,701)**	**3,935**

Gains or losses on Level 3 financial instruments included in profit or loss for the period comprise:

	For the three months ended 31 March 2018 (unaudited)			***Year ended 31 December 2017***		
	Realized gains/(losses) RUB MM	***Unrealized gains/(losses) RUB MM***	***Total RUB MM***	***Realized gains/(losses) RUB MM***	***Unrealized gains/(losses) RUB MM***	***Total RUB MM***
Total gains/(losses) recognized in profit or loss for the period	(144)	3	**(141)**	394	1,719	**2,113**

Effect of changes in significant unobservable inputs on the measurement of financial instruments categorized within Level 3 of the fair value hierarchy

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

31 March 2018 (unaudited)	***Carrying amount RUB MM***	***Valuation technique***	***Unobservable inputs***	***Range (weighted average value)***
Financial instruments at fair value through profit or loss				
Finance	–	Discounted cash flows	Credit risk of the issuer	100%
Investment securities				
Equity securities				
Finance	3,074	Discount to capital	Net assets	70%-90%
Energy	400	Value of net assets	Net assets	Not applicable
IT	180	Value of net assets	Net assets	Not applicable
Rating agencies	111	Value of net assets	Net assets	Not applicable
Investment property	58	Market and income approach	Discount for sale	10%
Property and equipment and intangible assets	696	Market and income approach	Discount for sale	10%
Assets held for sale	7	Market and income approach	Discount for sale	10%

26. Fair value of financial instruments (continued)

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

31 December 2017	*Carrying amount RUB MM*	*Valuation technique*	*Unobservable inputs*	*Range (weighted average value)*
Financial instruments at fair value through profit or loss				
Finance	–	Discounted cash flows	Credit risk of the issuer	100%
Investment securities				
Equity securities				
Finance	3,074	Discount to capital	Net assets	70%-90%
Energy	400	Value of net assets	Net assets	Not applicable
IT	300	Price of the most recent transaction	Price of the most recent transaction	Not applicable
Rating agencies	111	Value of net assets	Net assets	Not applicable
IT	50	Value of net assets	Net assets	Not applicable
Investment property	58	Market and income approach	Discount for sale	10%
Property and equipment and intangible assets	718	Market and income approach	Discount for sale	10%
Assets held for sale	425	Market and income approach	Discount for sale	10%

Transfers between Level 1 and Level 2

The following tables show transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets measured at fair value during the first three month 31 March 2018 and for the year ended 31 December 2017:

	For the three months ended 31 March 2018 (unaudited) RUB MM	*31 December 2017 RUB MM*
Financial instruments at fair value through profit or loss		
Government and municipal bonds	15,012	4,025
Bonds of state-owned companies	7,247	628
Corporate bonds	7,320	3,909
Total transfers from Level 1 to Level 2	**29,579**	**8,562**

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

	For the three months ended 31 March 2018 (unaudited) RUB MM	*31 December 2017 RUB MM*
Financial instruments at fair value through profit or loss		
Government and municipal bonds	7,714	1,272
Corporate bonds	6,434	4,245
Bonds of state-owned companies	620	4,115
Total transfers from Level 2 to Level 1	**14,768**	**9,632**

The financial instruments were transferred from Level 2 to Level 1 as they became actively traded during the reporting period and fair values were consequently determined using quoted prices in an active market.

26. Fair value of financial instruments (continued)

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

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

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

	31 March 2018 (unaudited)			*31 December 2017*		
	Carrying amount	*Fair value*	*Unrecog-nized gain/(loss)*	*Carrying amount*	*Fair value*	*Unrecog-nized gain/(loss)*
Financial assets						
Cash and cash equivalents	50,002	50,002	–	39,962	39,962	–
Mandatory cash balances with the CBR	3,410	3,410	–	2,975	2,975	–
Placements with banks	6,813	6,814	1	9,338	9,338	–
Loans to customers	261,151	266,079	4,928	266,245	271,027	4,782
Other assets	2,164	2,164	–	204	204	–
Financial liabilities						
Due to banks	107,954	107,954	–	194,135	194,135	–
Due to customers	401,503	403,662	(2,159)	358,914	361,057	(2,143)
Debt securities issued	14,370	14,617	(247)	15,744	15,780	(36)
Other borrowed funds	15,388	15,388	–	15,381	15,381	–
Subordinated debt	20,609	20,609	–	6,799	6,799	–
Other liabilities	5,302	5,302	–	3,270	3,270	–
Total unrecognized change in the fair value			**2,523**			**2,603**

27. Business combinations

Acquisition of Sovcomcard LLC

In February 2018 (the "acquisition date"), Sovcombank acquired a 100% shares of Sovcomcard LLC (hereinafter, "Sovcomcard") from third parties for RUB 1,106 MM.

Sovcomcard was incorporated in 2017 to develop "Halva" installment card project in the Russian Federation.

The main purpose for the Group to acquire Sovcomcard was to obtain exclusivity rights for "Halva" trademark in the Russian Federation.

Fair value of identifiable net assets and liabilities of Sovcomcard LLC

The Bank preliminary determined the fair value of the identifiable net assets and liabilities of Sovcomcard LLC, and the consideration received is in line with all available data in accordance with IFRS 3 *Business Combinations*. The Bank plans to obtain results of independent valuation of identifiable net assets and liabilities of Sovcomcard LLC before February 2019.

The preliminary fair value of identifiable net assets and liabilities of Sovcomcard LLC as at the acquisition date was as follows:

	RUB MM
Assets	
Cash and cash equivalents	13
Property and equipment and intangible assets	868
Other assets	16
Total assets	**897**
Liabilities	
Due to banks	3
Other liabilities	12
Total liabilities	**15**
Identifiable net assets	**882**

27. Business combinations

Acquisition of Sovcomcard LLC

	RUB MM
Consideration transferred	1,106
Preliminary fair value of identifiable net assets of Sovcomcard LLC as at the acquisition date:	(882)
Goodwill arising on acquisition	**224**

As at 31 March 2018, goodwill recognized in the Group's consolidated statement of financial position reflects potential gains from reduced costs and synergies resulting from business integration between PJSC Sovcombank and Sovcomcard LLC.

28. Capital adequacy

The Group manages its capital in accordance with the Russian legislation and requirements of the Central Bank of Russia at the level of each bank within the Group. The Group actively manages its capital in order to cover risks inherent in the activities of the Group, where the Bank is the dominant asset.

The Bank's capital adequacy is monitored based on the principles and ratios stipulated in the Basel Capital Accord of 1988, as well as ratios established by the CBR.

The primary objective of capital management is to monitor compliance of the Bank's capital with the CBR's requirements and to maintain strong credit ratings and capital ratios to ensure the Bank's operation and maximize shareholder value.

The CBR's capital adequacy ratio

According to the CBR, banks are required to maintain a capital adequacy ratio of 8% of risk-weighted assets, computed based on RAS (the ratio is calculated based on the statutory financial statements prepared in accordance with Russian accounting standards).

As at 31 March 2018 and 31 December 2017, the Bank's capital adequacy ratio calculated in accordance with the above rules exceeded the statutory minimum established by the CBR.

Capital adequacy ratio under Basel Capital Accord 1988

As at 31 March 2018 and 31 December 2017, the Group's capital adequacy ratio calculated in accordance with the Basel Capital Accord of 1988, taking into account subsequent amendments, including the amendment to incorporate market risk, was as follows:

	31 March 2018 (unaudited)	*31 December 2017*
Tier 1 capital	79,612	82,170
Tier 2 capital	28,660	13,502
Total equity	**108,272**	**95,672**
Risk-weighted assets	**554,009**	**579,649**
Tier 1 capital adequacy ratio	14.4%	14.2%
Total capital adequacy ratio	19.5%	16.5%

29. Principal consolidated subsidiaries, associates and joint ventures

The table below shows the list of the principal consolidated subsidiaries, associates and joint ventures of the Group as at 31 March 2018 and 31 December 2017:

		Voting rights	
	Relationship	***31 March 2018 (unaudited)***	***31 December 2017***
Sovremenny Kommerchesky Innovatsionny Bank LLC	Subsidiary	50.01%	50.01%
JSC Silhouette	Subsidiary	50.01%	50.01%
JSC Express-Volga Bank	Subsidiary	100.00%	100.00%
LLC RTS-Tender	Subsidiary	100.00%	100.00%
KOMANA HOLDINGS LIMITED	Subsidiary	100.00%	100.00%
LLC Investitsionnoye Agentstvo	Subsidiary	100.00%	100.00%
LAFA VENTURES LIMITED	Subsidiary	100.00%	100.00%
Sovcomcard LLC	Subsidiary	100.00%	–
LLC Tsifrovye Tekhnologii Buduschego	Subsidiary	100.00%	100.00%
LLC Sollers-Finance	Joint venture	50.00%	50.00%
JSC Kostromskoy Zavod Avtokomponentov	Associate	49.60%	49.60%
LLC Cbonds.ru	Associate	24.90%	24.90%
JSB Rosevrobank	Associate	35.34%	24.34%

Acquisition of shares in JSB Rosevrobank

In January 2018, Sovcombank purchased 11% shares in Joint-stock Bank “Rosevrobank” (“Rosevrobank”). As a result of this transaction, the direct share of Sovcombank in Rosevrobank was 35.34% as at 31 March 2018 (31 December 2017: 24.34%). As at 31 March 2018, the carrying amount of direct investment in Rosevrobank was RUB 10,892 MM (31 December 2017: RUB 7,445 MM). Besides, as at 31 December 2017 and 31 March 2018, the Group held 15.54% in REG Holding Limited. Its share in equity of Rosevrobank is 64.7%. Investments in REG Holding Limited of RUB 3,073 MM are recorded within investment securities.

Currently, the Group is allocating acquisition cost to Rosevrobank’s net assets.

Rosevrobank is incorporated in the Russian Federation. Its principal business activity is the issuance of loans and provision of cash and settlement services to small and medium enterprises (“SME”).

The shares in Rosevrobank were purchased to gain expertise with SMEs at a favorable price, and to get access to the bank’s sustainable business model that had generated material net profit for the bank over a number of years.

30. Subsequent events

Conversion of subordinated loan

On 26 March 2018, the CBR approved the Bank’s request to convert a perpetual subordinated loan of USD 117 MM issued by Sovco Capital Partners N.V. (Note 21) to its core capital for the purpose of regulatory compliance. The Bank increased its core capital in accordance with the CBR approval of 2 April 2018.

Acquisition of shares in JSB Rosevrobank

In April 2018, Sovcombank acquired 39.67% shares in Rosevrobank and sold its share of 15.54% in REG Holding Limited; Rosevrobank repurchased 9.99% of its shares from other shareholders.

As a result of these transactions, the Group obtained a direct shareholding of 83.34% in Rosevrobank and acquired control over it.