“Asian-Pacific Bank”

(Public joint stock company)

Consolidated Interim Condensed Financial Information

for the nine-month period ended 30 September 2018

Contents

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

To the Shareholder of Public joint stock company Asian-Pacific Bank

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of Public joint stock company Asian-Pacific Bank (the "Bank") and its subsidiaries (the "Group") as at 30 September 2018, and the related consolidated interim condensed statements of profit or loss and other comprehensive income for the three- and nine-month periods ended 30 September 2018, and the related consolidated interim condensed statements of changes in equity and cash flows for the nine-month period ended 30 September 2018, and notes to the consolidated interim condensed financial information (the "consolidated interim condensed financial information"). Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of consolidated interim condensed 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.

Audited entity: Public joint stock company Asian-Pacific Bank.

Registration No. in the Unified State Register of Legal Entities 1022800000079.

Blagoveschensk, Russia.

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registration No. in the Unified State Register of Legal Entities 1027700125628.

Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 11603053203.

Basis for Qualified Conclusion

As at 31 December 2017, the Group has loans issued to related parties included in loans to customers in net carrying amount of RUB 4 707 815 thousand. As at 30 September 2018, these loans were fully impaired, and the Group created 100% impairment allowance. We do not agree with a number of assumptions used by the Group for impairment assessment purposes of these loans as at 31 December 2017, and we believe impairment allowance should be significantly higher as at that date. The effect of the above matter on this consolidated interim condensed financial information has not been determined.

As at 31 December 2017, the Group has funds on accounts in PJSC "M2M Private Bank", which license for banking operations is revoked, included in due from banks in net carrying amount of RUB 500 355 thousand. As at 30 September 2018, the Group created 100% impairment allowance for these funds. We were unable to complete our review of assumptions used by the Group to estimate future cash flows for impairment assessment purposes of the above stated balances in PJSC "M2M Private Bank" as at 31 December 2017 as we were not provided with the related information by the management of the Group. Had we been able to complete our review of the above-mentioned assumptions, matters might have come to our attention indicating that adjustments might be necessary to this consolidated interim condensed financial information.

As at 30 September 2018, the Group has real estate items included in property and equipment, intangible assets and investment property in net carrying amount of RUB 2 178 805 thousand. We were unable to complete our review of assumptions used by the Group to estimate fair value of these real estate items as we were not provided with the related information by the management of the Group. Had we been able to complete our review of the above-mentioned assumptions, matters might have come to our attention indicating that adjustments might be necessary to this consolidated interim condensed financial information.

Qualified Conclusion

Based on our review, except for the effects of the matter described in the first paragraph of *Basis for Qualified Conclusion*, except for the possible effects of the matters described in the second and the third paragraphs of *Basis for Qualified Conclusion*, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial information as at 30 September 2018 and for the three- and nine-month periods ended 30 September 2018 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Other Matter

The corresponding figures as at and for three- and nine-month periods ended 30 September 2017 are not reviewed.

Tatarinova E.V.

JSC "KPMG"

Moscow, Russia

27 November 2018

	Notes	Nine-Month Period Ended 30 September 2018 RUB'000 (unaudited)	Nine-Month Period Ended 30 September 2017 RUB'000 (unaudited)*,**
Interest income calculated using the effective interest method		7 639 236	10 142 774
Other interest income		100 459	-
Interest expense		(3 442 510)	(5 049 231)
Net interest income		**4 297 185**	**5 093 543**
Deposit insurance expenses		(176 714)	(932 470)
Net interest income after deposit insurance expenses		**4 120 471**	**4 161 073**
Fee and commission income		2 103 958	2 467 396
Fee and commission expense		(357 185)	(334 374)
Net fee and commission income		**1 746 773**	**2 133 022**
Net gain on financial instruments at fair value through profit or loss		30 628	69 221
Realized gain on financial assets at fair value through other comprehensive income		4 099	83 320
Loss from equity-accounted investees		(7 011)	(16 416)
Net foreign exchange gain		403 355	335 057
Net gain on operations with precious metals		77 191	164 552
Other operating income	14	4 899 974	654 198
Operating income		**11 275 480**	**7 584 027**
Expected credit loss allowances	6	(4 350 233)	(1 417 226)
Other provisions	6	(753 392)	-
Personnel expenses		(2 632 907)	(2 715 011)
Other general administrative expenses		(2 444 585)	(3 401 355)
Profit before income tax		**1 094 363**	**50 435**
Income tax expense		(752 156)	(14 736)
Profit for the period		**342 207**	**35 699**
Other comprehensive (loss) income, net of income tax			
Items that are or may be reclassified subsequently to profit or loss			
Fair value reserve for financial assets at fair value through other comprehensive income			
- Net change in fair value		(309 334)	354 214
- Net change in fair value transferred to profit or loss		(53 527)	(174 254)
Total items that are or may be reclassified subsequently to profit or loss		*(362 861)*	*179 960*

The consolidated interim condensed statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial information.

	Notes	Nine-Month Period Ended 30 September 2018 RUB'000 (unaudited)	Nine-Month Period Ended 30 September 2017 RUB'000 (revised)*,**
Items that will not be reclassified subsequently to profit or loss			
Revaluation of buildings		(674 640)	-
Revaluation reserve for unquoted equity financial assets at fair value through other comprehensive income		(301 626)	-
Total items that will not be reclassified subsequently to profit or loss		*(976 266)*	-
Other comprehensive (loss) income for the period, net of income tax		**(1 339 127)**	**179 960**
Total comprehensive (loss) income for the period		**(996 920)**	**215 659**

The consolidated interim condensed financial information was approved on 27 November 2018.

Mr. R.V. Romanenko
Head of Temporary Administration

Ms. Y.E. Komova
Chief Accountant

* The corresponding figures as at and for the nine-month period ended 30 September 2017 are not reviewed.
**The Group has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 2). As a result of adoption of IFRS 9 the Group changed presentation of certain captions, comparative information is re-presented accordingly (see Note 5).

	Notes	Three-Month Period Ended 30 September 2018 RUB'000 (unaudited)	Three -Month Period Ended 30 September 2017 RUB'000 (unaudited)*,**
Interest income calculated using the effective interest method		2 736 074	3 572 056
Other interest income		43 201	-
Interest expense		(1 000 681)	(1 584 542)
Net interest income		**1 778 594**	**1 987 514**
Deposit insurance expenses		(82 780)	(508 631)
Net interest income after deposit insurance expenses		**1 695 814**	**1 478 883**
Fee and commission income		818 252	995 617
Fee and commission expense		(131 446)	(138 131)
Net fee and commission income		**686 806**	**857 486**
Net loss on financial instruments at fair value through profit or loss		(393)	(243 830)
Realized gain on financial assets at fair value through other comprehensive income		4 410	57 688
Gain (loss) from equity-accounted investees		5 256	(2 851)
Net foreign exchange gain		222 846	165 366
Net gain on operations with precious metals		42 394	42 877
Other operating income	14	127 649	174 514
Operating income		**2 784 782**	**2 530 133**
Expected credit loss allowances	6	(1 094 059)	(141 289)
Personnel expenses		(812 837)	(972 854)
Other general administrative expenses		(459 165)	(1 920 494)
Profit before income tax		**418 721**	**(504 504)**
Income tax benefit (expense)		307 699	(68 230)
Profit (loss) for the period		**726 420**	**(572 734)**
Other comprehensive income (loss), net of income tax			
Items that are or may be reclassified subsequently to profit or loss			
Fair value reserve for financial assets at fair value through other comprehensive income			
- Net change in fair value		45 969	274 104
- Net change in fair value transferred to profit or loss		(7 355)	(46 508)
Total items that are or may be reclassified subsequently to profit or loss		*38 614*	*227 596*

The consolidated interim condensed statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial information.

	Notes	Three-Month Period Ended 30 September 2018 RUB'000 (unaudited)	Three -Month Period Ended 30 September 2017 RUB'000 (unaudited)*,**
Items that will not be reclassified subsequently to profit or loss			
Revaluation reserve for unquoted equity financial assets at fair value through other comprehensive income		(301 626)	-
Total items that will not be reclassified subsequently to profit or loss		*(301 626)*	-
Other comprehensive (loss) income for the period, net of income tax		**(263 012)**	**227 596**
Total comprehensive income (loss) for the period		**463 408**	**(345 138)**

Mr. R.V. Romanenko
Head of Temporary Administration

Ms. Y.E. Komova
Chief Accountant

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The consolidated interim condensed statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial information.

	Notes	30 September 2018 RUB'000 (unaudited)	31 December 2017 RUB'000*
ASSETS			
Cash and cash equivalents	7	6 982 527	10 099 024
Obligatory reserves with the Central Bank of the Russian Federation		539 244	661 225
Financial instruments at fair value through profit or loss		3 032 806	4 018
including assets pledged under repurchase agreements		-	-
Financial assets at fair value through other comprehensive income	8	13 447 668	15 158 890
including assets pledged under repurchase agreements		-	*93 364*
Due from banks		1 654 336	532 822
Amounts receivable under reverse repurchase agreements		2 369 950	2 640 964
Loans to customers	9	45 184 578	57 603 789
Net investments in finance leases	10	1 121 137	1 344 986
Investments in associates and other investments	11	93 410	108 731
Investments at amortised cost		362 673	2 764 013
including assets pledged under repurchase agreements		-	*2 423 085*
Deferred tax asset		714 848	978 682
Property and equipment, intangible assets and investment property		5 132 476	6 892 189
Other assets		4 127 278	4 538 166
Total assets		**84 762 931**	**103 327 499**
LIABILITIES			
Financial instruments at fair value through profit or loss		8 459	876 662
Deposits and balances from banks		754 972	1 527 288
Amounts payable under repurchase agreements		-	2 377 631
Current accounts and deposits from customers	12	65 459 445	79 141 900
Debt securities issued	13	751 359	1 229 719
Subordinated borrowings	14	-	3 920 516
Other liabilities		1 649 143	1 136 126
Total liabilities		**68 623 378**	**90 209 842**

The consolidated interim condensed statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial information.

EQUITY	Notes	30 September 2018 RUB'000 (unaudited)	31 December 2017 RUB'000*
Share capital	15	6 000 000	585 414
Treasury shares		-	(10 307)
Share premium	15	3 000 000	1 778 739
Additional capital		-	2 200 000
Fair value reserve for financial assets at fair value through other comprehensive income		(701 214)	189 533
Revaluation surplus for buildings		1 136 172	1 816 992
Retained earnings		6 704 595	6 557 286
Total equity		**16 139 553**	**13 117 657**
Total liabilities and equity		**84 762 931**	**103 327 499**

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The consolidated interim condensed statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial information.

	Notes	Nine-Month Period Ended 30 September 2018 RUB'000 (unaudited)	Nine-Month Period Ended 30 September 2017 RUB'000 (unaudited)*, **
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		8 099 277	9 863 541
Interest payments		(3 790 548)	(5 626 218)
Fee and commission receipts		2 080 789	2 448 391
Fee and commission payments		(355 338)	(322 094)
Net receipts from financial instruments at fair value through profit or loss and financial assets at fair value through other comprehensive income		34 727	268 565
Net payments from foreign exchange		430 224	498 834
Other income receipts		555 443	645 968
Net (payments) receipts from operations with precious metals		(19 745)	156 151
Deposit insurance, personnel and other general administrative expenses paid		(4 551 392)	(6 812 235)
(Increase) decrease in operating assets			
Obligatory reserves with the CBR		121 981	110 003
Financial instruments at fair value through profit or loss		(989 055)	-
Financial assets at fair value through other comprehensive income		(704 212)	4 146 940
Due from banks		(1 635 417)	(8 079)
Amounts receivable under reverse repurchase agreements		248 204	(733 749)
Loans to customers		3 592 597	7 411 201
Net investments in finance leases		151 162	(141 156)
Other assets		646 160	1 049 604
Increase (decrease) in operating liabilities			
Financial instruments at fair value through profit or loss		(868 202)	-
Deposits and balances from banks		(855 348)	(698 528)
Amounts payable under repurchase agreements		(2 375 973)	(2 495 859)
Current accounts and deposits from customers		(13 994 431)	(7 668 966)
Promissory notes		59 324	(126 070)
Other liabilities		(87 832)	(646 730)
Net cash flows from operating activities before income tax paid		**(14 207 605)**	**1 319 514**
Income tax paid		(141 723)	(60 935)
Net cash flows from operating activities		**(14 349 328)**	**1 258 579**

	Notes	Nine-Month Period Ended 30 September 2018 RUB'000 (unaudited)	Nine-Month Period Ended 30 September 2017 RUB'000 (unaudited)*,**
CASH FLOWS FROM INVESTING ACTIVITIES			
Repayments of investments at amortised cost		2 359 668	4 199
Receipts from investments in associates		8 310	-
Net purchases of property and equipment, intangible assets and investment property		(76 186)	(746 188)
Net cash flows from investing activities		**2 291 792**	**(741 989)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bonds		(529 039)	(437 702)
Issue of shares	15	9 000 000	-
Net cash flows from financing activities		**8 470 961**	**(437 702)**
Net (decrease) increase in cash and cash equivalents		**(3 586 574)**	**78 888**
Effect of changes in exchange rates on cash and cash equivalents		470 077	56 131
Cash and cash equivalents as at the beginning of the period		10 099 024	11 358 076
Cash and cash equivalents as at the end of the period	7	**6 982 527**	**11 493 095**

Mr. R.V. Romanenko
Head of Temporary Administration

Ms. Y.E. Komova
Chief Accountant

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**The Group has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 2). As a result of adoption of IFRS 9 the Group changed presentation of certain captions, comparative information is re-presented accordingly (see Note 5).

The consolidated interim condensed statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial information.

RUB'000	Share capital	Treasury shares	Share premium	Additional capital	Fair value reserve for financial assets at fair value through other comprehensive income	Revaluation surplus for buildings	Retained earnings	Total equity
Balance as at 1 January 2017	585 414	(10 307)	1 778 739	2 200 000	93 977	1 866 378	7 663 065	14 177 266
Total comprehensive income for the period								
Profit for the period (unaudited)*	-	-	-	-	-	-	35 699	35 699
Other comprehensive income, net of income tax								
Items that are or may be reclassified subsequently to profit or loss								
Net change in fair value of financial assets at fair value through other comprehensive income, net of deferred tax of RUB 88 553 thousand RUB (unaudited)*,**	-	-	-	-	354 214	-	-	354 214
Net change in fair value of financial assets at fair value through other comprehensive income, transferred to profit and loss, net of deferred tax of RUB 43 563 thousand RUB (unaudited)*,**	-	-	-	-	(174 254)	-	-	(174 254)
Total items that are or may be reclassified subsequently to profit or loss (unaudited),***	-	-	-	-	*179 960*	-	-	*179 960*
Items that will not be reclassified to profit or loss								
Transfer of revaluation surplus on disposal of buildings, revalued before (unaudited) *,**	-	-	-	-	-	(8 986)	8 986	-
Total items that will not be reclassified to profit or loss (unaudited),***	-	-	-	-	-	(8 986)	8 986	-
Total comprehensive income for the period, net of income tax (unaudited)*,**	-	-	-	-	*179 960*	*(8 986)*	*44 685*	*215 659*
Balance as at 30 September 2017 (unaudited)*,**	585 414	(10 307)	1 778 739	2 200 000	273 937	1 857 392	7 707 750	14 392 925

The consolidated interim condensed statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial information.

RUB'000	Share capital	Treasury shares	Share premium	Additional capital	Fair value reserve for financial assets at fair value through other comprehensive income	Revaluation surplus for buildings	Retained earnings	Total equity
Balance as at 31 December 2017	585 414	(10 307)	1 778 739	2 200 000	189 533	1 816 992	6 557 286	13 117 657
Impact of adopting IFRS 9 as at 1 January 2018 (unaudited)	-	-	-	-	(226 260)	-	(4 754 924)	(4 981 184)
Restated balance as at 1 January 2018 (unaudited)	585 414	(10 307)	1 778 739	2 200 000	(36 727)	1 816 992	1 802 362	8 136 473
Total comprehensive loss for the period								
Profit for the period (unaudited)	-	-	-	-	-	-	342 207	342 207
Other comprehensive loss, net of income tax								
Items that are or may be reclassified subsequently to profit or loss								
Net change in fair value of financial assets at fair value through other comprehensive income, net of deferred tax of RUB 77 334 thousand (unaudited)	-	-	-	-	(309 334)	-	-	(309 334)
Net change in fair value of financial assets at fair value through other comprehensive income, transferred to profit or loss, net of deferred tax of RUB 13 382 thousand (unaudited)	-	-	-	-	(53 527)	-	-	(53 527)
Total items that are or may be reclassified subsequently to profit or loss (unaudited)	-	-	-	-	*(362 861)*	-	-	*(362 861)*
Items that will not be reclassified to profit or loss								
Revaluation of buildings, net of deferred tax of RUB 168 660 thousand (unaudited)	-	-	-	-	-	(674 640)	-	(674 640)
Transfer of revaluation surplus on disposal of buildings, revalued before (unaudited)						(6 180)	6 180	-
Revaluation reserve on financial non-quoted equity instruments at fair value through other comprehensive income, net of deferred tax of RUB 75 407 thousand (unaudited)	-	-	-	-	(301 626)	-	-	(301 626)
Total items that will not be reclassified to profit or loss (unaudited)	-	-	-	-	*(301 626)*	*(680 820)*	*6 180*	*(976 266)*
Total comprehensive (loss) income for the period, net of income tax (unaudited)	-	-	-	-	**(664 487)**	**(680 820)**	**348 387**	**(996 920)**

The consolidated interim condensed statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial information.

RUB'000	Share capital	Treasury shares	Share premium	Additional capital	Fair value reserve for financial assets at fair value through other comprehensive income	Revaluation surplus for buildings	Retained earnings	Total equity
Transactions with owners, reflected directly in equity								
Loss coverage from own equity (unaudited)	-	-	(1 778 739)	(2 200 000)	-	-	3 978 739	-
Conversion of shares (Notes 15) (unaudited)	(585 414)	10 307	-	-	-	-	575 107	-
Issue of shares (Notes 15) (unaudited)	6 000 000	-	3 000 000	-	-	-	-	9 000 000
Total transactions with owners (unaudited)	**5 414 586**	**10 307**	**1 221 261**	**(2 200 000)**	-	-	**4 553 846**	**9 000 000**
Balance as at 30 September 2018 (unaudited)	**6 000 000**	-	**3 000 000**	-	**(701 214)**	**1 136 172**	**6 704 595**	**16 139 553**

Mr. R.V. Romanenko
Head of Temporary Administration

Ms. Y.E. Komova
Chief Accountant

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1 Background

Organisation and operations

This consolidated interim condensed financial information includes the financial information of PJSC "Asian-Pacific Bank" (the Bank) and its subsidiaries (together referred to as the Group).

The Bank was established in the Russian Federation as a closed joint stock company in 1992 under the name Amurpromstroybank as a successor of Promstroybank of USSR which was founded in 1929. In 2006 the Bank was reorganised from a closed joint stock company to an open joint stock company and renamed to Asian-Pacific Bank by decision of the shareholders. On 7 May 2010 LLC "PPFIN Region", being a common majority shareholder for OJSC "Asian-Pacific Bank", OJSC "Kamchatprombank" and OJSC "Kolyma-Bank", merged the operations of these entities and therefore granted full control over OJSC "Kamchatprombank" and OJSC "Kolyma-Bank" to OJSC "Asian-Pacific Bank". In July 2015 the Bank was reorganised from an open joint stock company to a public joint stock company. The management of PJSC "Asian-Pacific Bank" was transferred to LLC "Managing Company of the Banking Sector Consolidation Fund" starting from 26 April 2018 (Note 18).

The principal activities of the Bank are deposit taking and customer accounts maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Central Bank of the Russian Federation (the CBR or Bank of Russia). The Bank has a general banking license, and is a member of the state deposit insurance system in the Russian Federation.

The Bank has 201 (31 December 2017: 200) offices from which it conducts business throughout the Russian Federation including a head office, 5 regional branches, 13 additional office and 182 operational offices (unaudited). The legal address of the head office is 225, Amurskaya Street, Blagoveschensk, 675000. The majority of the assets and liabilities are located in the Russian Federation.

As at 30 September 2018 and 31 December 2017, the following shareholders held the issued shares of PJSC "Asian-Pacific Bank":

Shareholder	30 September 2018, % (unaudited)	31 December 2017, %
The Central Bank of the Russian Federation	100.00	
LLC "PPFIN Region" (Russian Federation)	0.00	59.17
East Capital Financials Fund AB (Sweden)	0.00	17.91
SHELMER HOLDING LTD (British Virgin Islands)	0.00	8.41
International Financial Corporation (USA)	0.00	6.71
EPIC VISION LTD (Marshall Islands)	0.00	2.64
LLC "Expo-Leasing" (a 100% owned subsidiary of the Bank)	0.00*	1.76*
Others	0.00	3.40
Total	**100.00**	**100.00**

** Treasury shares*

In order to implement all necessary measures to support and further develop the Bank's activity, the Bank of Russia ordered (Order No. OD-1076 dated 25 April 2018) to assign the functions of the temporary administration for the management of the PJSC Asian-Pacific Bank to LLC «Fund of Banking Sector Consolidation Asset Management Company» from 26 April 2018. Powers of shareholders, the Board of Directors and the Management Board are suspended.

Details of the subsidiaries and associates are as follows:

Name	Country of incorporation	Principal activities	Ownership, % 30 September 2018, (unaudited)	31 December 2017
LLC "Expo-Leasing"	Russian Federation	Leasing	100%	100%
CJSC "Mortgage agent APB"	Russian Federation	Mortgage agent	see below	see below
CJSC "Mortgage agent APB 2"	Russian Federation	Mortgage agent	see below	see below
LLC "Specialized financial company APB 2"	Russian Federation	Asset-backed securitisation	see below	see below
CUIF "Celena"	Russian Federation	Unit investment fund	41.09%	40.99%
PJSC "M2M Private Bank"	Russian Federation	Banking	100%*	100%*
LLC "Katerina Park"	Russian Federation	Hotel industry	100%*	100%*
LLC "Pride M"	Russian Federation	Freight services	100%*	100%*

** The Bank does not actually control these companies due to withdrawal of license from PJSC "M2M Private Bank".*

On 1 October 2010 100% of the shares of LLC "Expo-Leasing" were acquired by the Bank.

LLC "Expo-Leasing" was registered in 2002 in the Russian Federation. Its head office is located in Moscow. As at 30 September 2018 it has 4 branches (31 December 2017: 5 branches), comprising a head office and 3 separate offices (unaudited).

CJSC "Mortgage agent APB", CJSC "Mortgage agent APB 2" and LLC "Specialized financial company APB 2" ("MA APB", "MA APB 2" and "LLC SFC APB 2") are structured entities established to ensure asset-backed securitisation. These entities are not owned by the Group. Control arises through the predetermination of the entities' activities, having rights to obtain the majority of benefits of the structured entities, and retaining the majority of the residual risks related to the entities. All bonds in the amount of RUB 1 390 000 thousand, issued by LLC SFC APB 2, were repurchased by the Bank.

On 4 May 2016, 51.58% of the shares of CUIF "Celena" were received by the Bank as a result of non-performance of repurchase agreement with PJSC "BaikalBank". CUIF "Celena" was registered in 2010 in Russian Federation. At the date of acquisition the fund was managed by Finance Trade Asset Management LLC licensed to manage investment funds in 2008. On 30 December 2016, CUIF "Celena" issued 58 533 additional investment units totaling RUB 64 140 thousand which resulted in the decrease of the Bank's share down to 40.99%. In 2018 quantity of issued investment units of CUIF "Celena" decreased to 284 414, as the result the share of the Bank increased to 41.09%.

On 8 July 2016, the Group acquired 100% control over PJSC M2M "Private Bank", previously controlled by the ultimate beneficial owners of the Group. In 2015 the Group in accordance with the PJSC "M2M Private Bank" share purchase agreement terms paid for 100% of shares amounting to RUB 2 300 000 thousand. The Group received 25% of shares on 27 October 2015 and 75% of shares on 8 July 2016 from LLC "Prosop Invest". PJSC "M2M Private Bank" held 100% interest in the share capitals of LLC "Katerina Park" (starting from 21 December 2015) and LLC "Pride M" (starting from 10 June 2016). On 9 December 2016, the Group lost control over PJSC "M2M Private Bank" and its subsidiaries due to withdrawal of its banking license and imposing of temporary administration. PJSC "M2M Private Bank" has not been consolidated over the control period as Management of the Group does not deem the effect to have significant impact on the amounts stated in the consolidated interim condensed financial information. Investments in PJSC "M2M Private Bank" are included in "Investments in associates and other investments".

Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets risks of the Russian Federation, which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to be developed, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation.

Since 2014, the United States, the European Union and some other countries have introduced and gradually tightened economic sanctions on Russian individuals and legal entities. The imposition of sanctions has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities, including banks, may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

This consolidated interim condensed financial information reflects management's assessment of the possible impact of the existing terms of the financial and business operations on the results of the activity and the financial position of the Group. The subsequent development of the conditions for the implementation of financial and business activities may differ from the management's assessment.

The Group operates in an industry that does not have significant seasonal or cyclical changes in operating income during the financial year.

Risk management

Management of risk is fundamental to the business of banking and forms an essential element of the Group's operations. The major (significant) risks faced by the Group are those related to market risk, credit risk, liquidity risk, and operational, legal and reputational risks.

The Group's policy and procedures of risk management comply with the policy and procedures described and applied in the consolidated financial statements of the Group for the year ended 31 December 2017 (except for described in the Note 4).

2 Basis of preparation of the consolidated interim condensed financial information

Statement of compliance

The accompanying consolidated interim condensed financial information is prepared in accordance with International Financial Reporting Standard *IAS 34 Interim Financial Reporting*. As a result, it does not include all of the information required for full consolidated financial statements, and should be read in conjunction with the consolidated financial statements as at and for the year ended 31 December 2017, as this consolidated interim condensed financial information provides an update of previously reported consolidated financial statements.

Basis of measurement

The consolidated interim condensed financial information is prepared on the historical cost basis except that financial instruments at fair value through profit or loss, financial assets at fair value through other comprehensive income are stated at fair value, and buildings are stated at revalued amounts.

Functional and presentation currency

The functional currency of the Bank and its subsidiaries is the Russian Rouble (RUB) as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The RUB is also the presentation currency for the purposes of this consolidated interim condensed financial information.

Consolidated interim condensed financial information presented in RUB is rounded to the nearest thousand.

Use of estimates and judgments

The preparation of consolidated interim condensed financial information in conformity with International Financial Reporting Standards (IFRS) requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgments, estimates and assumptions that affect the application of accounting policies made by management for the preparation of this consolidated interim condensed financial information were the same as for complete consolidated financial statements as at 31 December 2017 and for the year ended 31 December 2017, except for provisions described below.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated interim condensed financial information is included in the following notes:

- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 3(c)(i).

Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the consolidated interim condensed financial information is included in the following notes:

- impairment of financial instruments: assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit losses (ECL) – Note 3(c)(iv).

Changes in accounting policies and presentation

IFRS 9 Financial instruments

In July 2014, the IASB issued the final version of IFRS 9 '*Financial Instruments*'. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces IAS 39 '*Financial Instruments: Recognition and Measurement*'.

In October 2017, the IASB issued '*Prepayment Features with Negative Compensation*' *(Amendments to IFRS 9)*. The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

The Group has adopted IFRS 9 '*Financial Instruments'* issued in July 2014 with a date of initial application of 1 January 2018 and early adopted amendments to IFRS 9 on the same date. The requirements of IFRS 9 represent a significant change from IAS 39 '*Financial Instruments: Recognition and Measurement*'. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As permitted by IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39.

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Group classifies financial assets under IFRS 9, see Note 3(c)(i).

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

For an explanation of how the Group classifies financial liabilities under IFRS 9, see Note 3(c)(i).

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Group applies the impairment requirements of IFRS 9, see Note 3(c)(iv).

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for the nine-month period ended 30 September 2017 and as at 31 December 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented as at and for the nine-month period ended 30 September 2018 and as at 30 September 2018 under IFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  – The determination of the business model within which a financial asset is held.
  – The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  – The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.
- For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 5.

3 Significant accounting policies

The accounting policies applied in this consolidated interim condensed financial information are the same as those applied in the last annual consolidated financial statements as at 31 December 2017, except for the below-mentioned aspects related to the Group's adoption of IFRS 9 (Note 2(c)), which is effective from 1 January 2018.

a) Interest income and expense

Effective interest rate

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

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

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and amounts paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

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

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

For information on when financial assets are credit-impaired, see (c)(iv).

Presentation

Interest income and expense presented in the consolidated interim condensed statement of profit or loss and other comprehensive include:

- interest income and expense on financial assets and financial liabilities measured at amortised cost calculated using the effective interest method;
- interest income on debt instruments measured at FVOCI calculated using the effective interest method;
- Interest on non-derivative debt financial instruments measured at FVTPL is presented separately as "other interest income". It is measured using the effective interest method, excluding transaction costs.

b) Net income from transactions with financial instruments measured at fair value through profit or loss

'Net income from transactions with financial instruments measured at fair value through profit or loss' comprises gains less losses related to assets and liabilities measured at fair value through profit or loss, and includes all fair value changes, and foreign exchange differences.

c) Financial assets and financial liabilities

i. Classification of financial instruments

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

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

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

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

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

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

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss (see c(ii)) unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in other comprehensive income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

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

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

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

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

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

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

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

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

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets. The Group should reclassify financial assets if the Group changes its business model for managing those financial assets. Such changes are expected to be very infrequent. Such changes are determined by the Group's senior management as a result of external or internal changes and must be significant to the Group's operations and demonstrable to external parties. Accordingly, a change in the Group's business model will occur only when the Group either begins or ceases to perform an activity that is significant to its operations; for example, when the Group has acquired, disposed of or terminated a business line.

Financial liabilities are not reclassified subsequent to their initial recognition.

ii. Derecognition

Financial assets

From 1 January 2018 any cumulative gain/loss recognised in other comprehensive income in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, as explained in (c)(i). Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

iii. Modification of financial assets and financial liabilities

Financial assets

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

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

The Group concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement;

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

For loans with a fixed interest rate, the terms of which stipulate the borrower's right to early repayment at nominal value without significant fines, the change in the interest rate to the market level in response to changes in market conditions is accounted for by the Group in a manner similar to the accounting for instruments with floating interest rates, i.e. the interest rate is revised prospectively.

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

Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability the Group applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Group recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

Group performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Group concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

iv. Impairment

See also Note 4.

The Group recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

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

No impairment loss is recognised on equity investments.

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

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

The Group considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

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

Measurement of ECL

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

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

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see (c)(iii)) and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired.

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

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

In making an assessment of whether an investment in sovereign debt (other financial assets) is credit-impaired, the Group considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the consolidated interim condensed statement of financial position

Loss allowances for ECL are presented in the consolidated interim condensed statement of financial position as follows:

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component (given loan)*: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component (given loan). Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *debt instruments measured at FVOCI*: no loss allowance is recognised in the consolidated interim condensed statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-offs

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

d) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship.

e) Loans to customers

"Loans to customers" caption in the consolidated interim condensed statement of financial position includes loans to customers measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

f) Securities

The "Financial instruments at fair value through profit or loss" caption in the consolidated interim condensed statement of financial position includes: equity investment securities that are necessarily measured at fair value through profit or loss; they are measured at fair value, the changes of which are recognized immediately in profit or loss.

The "Financial assets at fair value through other comprehensive income" in the consolidated interim condensed statement of financial position includes:

• Debt securities at fair value through other comprehensive income; and

• Equity investment securities that are classified at the option of the Group into the fair value through other comprehensive income.

The "Investments at amortised cost" caption of the consolidated interim condensed statement of financial position includes: debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

g) Financial guarantees and loan commitments

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. Subsequently, they are measured at the higher of this amortised amount and the amount of loss allowance (see (c)(iv)).

The Group has not issued any loan commitments that are measured at fair value through profit and loss.

For other loan commitments the Group recognises loss allowance (see (c)(iv)).

Liabilities arising from financial guarantees and loan commitments are included within provisions.

h) Comparative information

As a result of adoption of IFRS 9 the Group changed presentation of certain captions in the primary forms of consolidated interim condensed financial information. Comparative information is reclassified to conform to changes in presentation in the current period.

The effect of main changes in presentation of the consolidated interim condensed statement of financial position is disclosed in Note 5.

The effect of main changes in presentation of the consolidated interim condensed statement of financial position is as follows:

- "Available-for-sale financial assets" and "Held-to-maturity investments" were presented within line items "Financial assets at fair value through other comprehensive income" and "Investments at amortised cost" respectively.

The effect of the changes above on the consolidated interim condensed statement of financial position is summarized in the table below:

RUB’000	As previously reported	Effect of reclassifications	As reclassified
Available-for-sale financial assets	15 158 890	(15 158 890)	-
Financial assets at fair value through other comprehensive income	-	15 158 890	15 158 890
Held-to-maturity investments	2 764 013	(2 764 013)	-
Investments at amortized cost	-	2 764 013	2 764 013

The effect of main changes in presentation of the consolidated interim condensed statement of profit or loss and other comprehensive income is as follows:

- Realized gain on financial assets at fair value through other comprehensive income is presented separately from net gain from operations with financial instruments at fair value through profit and loss.

The effect of the changes above on the consolidated interim condensed statement of profit or loss and other comprehensive income is summarized in the table below:

RUB’000	As previously reported	Effect of reclassifi-cations	As reclassified
Net gain from operations with financial instruments at fair value through profit and loss and realized gain on available-for-sale financial assets	152 541	(152 541)	-
Net gain from operations with financial instruments at fair value through profit and loss	-	69 221	69 221
Realized gain on financial assets at fair value through other comprehensive income	-	83 320	83 320

i) Standards issued but not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application if permitted; however, the Group has not early adopted the following new or amended standards in the preparing this consolidated interim condensed financial information.

4 Financial risk review

This Note presents information about the Group’s exposure to financial risks. For information on the Group’s financial risk management framework, see Note 32 of the consolidated financial statements of the Group as at and for the year ended 31 December 2017.

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3(c)(iv).

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; and
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The model of expected credit losses (ECL)

The allowance for credit losses, calculated on the basis of the expected credit loss model, represents an amount that reflects the various probabilities, the time value of money, and reasonable and verified information, both about past events and current and future economic situations.

The allowance for credit losses, calculated by the model of expected credit losses, is estimated as follows:

• Based on 12-month expected credit losses (12-month expected credit losses are part of the expected credit losses due to default events on a financial instrument, possible within 12 months after the reporting date); or

• Based on expected credit losses over the life of the financial instrument, if the instrument has a significant increase in credit risk since its initial recognition.

The model of expected credit losses divides financial instruments into three grades:

• Grade 1 includes non-impaired financial instruments for which there has been no significant increase in credit risk since initial recognition. For grade 1, the Group recognizes 12-month expected losses.

• Grade 2 includes non-impaired financial instruments for which a significant increase in credit risk occurred. In Grade 2, the Group recognizes the expected credit losses for the life of the financial instrument. In subsequent reporting periods, the financial instrument is reclassified to Grade 1, if there is no evidence of impairment and there is no significant increase in credit risk. In the case of reclassification, 12-month credit losses are recognized again.

• Grade 3 includes impaired financial instruments. In Grade 3, the Group recognizes the expected credit losses for the life of the financial instrument. In subsequent reporting periods, the financial instrument is reclassified to Grade 2 in the event that there are no signs of impairment at the reporting date.

Definition of default

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is past due more than a certain number of days depending on the type of the financial instrument and other factors indicating a deterioration in credit quality (restructuring, prolongation, change in ratings and other negative factors).

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

- qualitative – e.g. violation of restrictive terms of the contract (covenants);
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

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

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3(c)(iii).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

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

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

For financial assets modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 3(c)(iv)) /in default. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Incorporating of forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group uses expert judgment in assessment of forward-looking information. This assessment is based also on external information. External information may include economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, such as the CBR and Ministry of Economic Development, and selected private sector and academic forecasters.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

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

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. LGD parameters are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics.

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

Loss allowances

The following tables show movements from the opening to the closing balances of the loss allowance by classes of financial instruments, which are not presented in the Notes 7-11.

RUB'000	Nine-Month Period Ended 30 September 2018 (unaudited)
Due from banks and cash and cash equivalents	
Balance at 1 January 2018	6 025 424
Net change of loss allowance	505 244
Balance at 30 September 2018	**6 530 668**
Investments at amortised costs	
Balance at 1 January 2018	3 477
Net change of loss allowance	(3 365)
Balance at 30 September 2018	**112**
Other assets	
Balance at 1 January 2018	27 973
Net change of loss allowance	24 383
Write-offs	(7 948)
Balance at 30 September 2018	**44 408**
Loan commitments and financial guarantee contracts	
Balance at 1 January 2018	67 677
Net change of loss allowance	44 162
Balance at 30 September 2018	**111 839**

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt instruments as at 30 September 2018. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 3(c)(iv).

	30 September 2018				
RUB’000 (unaudited)	**12-month ECL**	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Credit impaired assets at initial recognition**	**Total**
Due from banks (including NOSTRO, term deposits in other banks, included in cash and cash equivalents)					
Rated A- to A+	373 524	-	-	-	373 524
Rated BBB- to BBB+	2 000 525	-	-	-	2 000 525
Rated from BB- to BB+	121 929	-	-	-	121 929
Rated below CCC to B+	612 389	-	-	-	612 389
Rated D+	-	-	6 513 669	-	6 513 669
	3 108 367	**-**	**6 513 669**	**-**	**9 622 036**
Loss allowance	**(16 999)**	**-**	**(6 513 669)**	**-**	**(6 530 668)**
Carrying amount	**3 091 368**	**-**	**-**	**-**	**3 091 368**
Loans to customers - corporate customers					
Standard	12 267 164	-	-	-	12 267 164
Substandard	-	1 827 980	-	-	1 827 980
Problem	-	-	12 710 628	-	12 710 628
	12 267 164	**1 827 980**	**12 710 628**	**-**	**26 805 772**
Loss allowance	**(158 704)**	**(34 663)**	**(7 965 392)**	**-**	**(8 158 759)**
Carrying amount	**12 108 460**	**1 793 317**	**4 745 236**	**-**	**18 647 013**
Loans to customers – retail customers					
Not overdue	23 335 009	1 518 596	-	-	24 853 605
Overdue less than 30 days	500 140	159 011	-	-	659 151
Overdue 30-89 days	-	605 288	-	-	605 288
Overdue 90-723 days	-	-	8 367 550	-	8 367 550
Overdue 724 days	-	-	11 621 893	-	11 621 893
	23 835 149	**2 282 895**	**19 989 443**	**-**	**46 107 487**
Loss allowance	**(851 738)**	**(843 702)**	**(17 874 482)**	**-**	**(19 569 922)**
Carrying amount	**22 983 411**	**1 439 193**	**2 114 961**	**-**	**26 537 565**
Investment securities at amortised cost					
Rated from AA- to AA+	329 721	-	-	-	329 721
Rated BBB- to BBB+	33 064	-	-	-	33 064
	362 785	**-**	**-**	**-**	**362 785**
Loss allowance	**(112)**	**-**	**-**	**-**	**(112)**
Carrying amount	**362 673**	**-**	**-**	**-**	**362 673**

RUB’000 (unaudited)	**30 September 2018** 12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Credit impaired assets at initial recognition	Total
Debt investment securities at FVOCI					
Rated AAA	433 813	-	-	-	433 813
Rated BBB- to BBB+	9 947 792	-	-	-	9 947 792
Rated from BB- to BB+	222 362	-	-	-	222 362
Not rated	1 522 227	287 745	-	102 651	1 912 623
Gross carrying amount	**12 126 194**	**287 745**	**-**	**102 651**	**12 516 590**
Loss allowance	**(13 505)**	**(38 471)**	**-**	**(102 651)**	**(154 627)**
	12 112 689	**249 274**	**-**	**-**	**12 361 963**
Carrying amount – fair value	**12 126 194**	**287 745**	**-**	**102 651**	**12 516 590**
Loan commitments and financial guarantee contracts					
Standard	4 522 174	-	-	-	4 522 174
Loss allowance	**(111 839)**	-	-	-	**(111 839)**
Carrying amount (allowance)	**(111 839)**	**-**	**-**	**-**	**(111 839)**
Other financial assets					
Standard	1 493 588	-	-	-	1 493 588
Loss allowance	**(44 408)**	-	-	-	**(44 408)**
Carrying amount	**1 449 180**	-	-	-	**1 449 180**

Credit quality analysis as of 31 December 2017

Due from banks (RUB'000)

Due from PJSC "M2M Private Bank"	**6 521 277**
Other amounts due from banks	**32 834**
Total due from banks	**6 554 111**
Impairment allowance	(6 021 289)
Total due from banks after impairment allowance	**532 822**

Loans to customers - corporate customers (RUB'000)

Loans to corporate customers	
Loans without individual signs of impairment	21 573 161
Impaired loans:	
- not overdue	4 600 894
- overdue less than 90 days	815 684
- overdue more than 90 days and less than 1 year	488 295
- overdue more than1 year	2 318 813
Total impaired loans	**8 223 686**
Gross loans to corporate customers	**29 796 847**
Impairment allowance	(2 779 113)
Net loans to corporate customers	**27 017 734**

Loans to customers – retail customers (RUB'000)

	Consumer loans	**Mortgage loans**	**Total Loans to retail customers**
Loans to retail customers			
- not overdue	24 330 085	3 333 598	27 663 683
- overdue less than 30 days	692 607	45 401	738 008
- overdue 30 - 90 days	574 384	96 888	671 272
- overdue 90 - 180 days	740 652	67 665	808 317
- overdue more than 180 days	14 578 570	277 093	14 855 663
Gross loans to retail customers	**40 916 298**	**3 820 645**	**44 736 943**
Impairment allowance	(13 952 400)	(198 488)	(14 150 888)
Net loans to retail customers	**26 963 898**	**3 622 157**	**30 586 055**

Available-for-sale financial assets (RUB'000)

Held by the Group	
- Government, the CBR and municipal bonds	
Russian Government Federal bonds (OFZ)	2 201 940
Regional authorities bonds	248 653
The CBR bonds	6 583 010
Total government, the CBR and municipal bonds	**9 033 603**
- Corporate bonds	
rated from BB- and above	2 959 608
banks with revoked license	102 651
Total corporate bonds	**3 062 259**
- Corporate shares	
rated B+ and below	2 840 668
not rated	388 504
Total corporate shares	**3 229 172**
Total available-for-sale financial instruments held by Group	**15 325 034**
Pledged under sale and repurchase agreements	
- Corporate bonds	
rated BB- to BBB+	93 364
Total corporate bonds	**93 364**
Total available-for-sale financial instruments pledged under sale and repurchase agreements	**93 364**
Total available-for-sale financial instruments	**15 418 398**
Impairment allowance	(259 508)
Total available-for-sale financial instruments	**15 158 890**

Held-to-maturity investments (RUB'000)

Held by the Group	
Government and municipal bonds	
Regional authorities bonds	49 553
Total government and municipal bonds	**49 553**
Corporate bonds	
rated from BB- and above	291 375
Total corporate bonds	**291 375**
Total held-to-maturity investments held by Group	**340 928**
Pledged under sale and repurchase agreements	
Corporate bonds	
rated from BB- to BBB+	2 423 085
Total corporate bonds	**2 423 085**
Total held-to-maturity investments pledged under sale and repurchase agreements	**2 423 085**
Total held-to-maturity investments	**2 764 013**

5 Transition to IFRS 9

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities as at 1 January 2018.

(unaudited)	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets				
Cash and cash equivalents	Loans and receivables	Amortised cost	10 099 024	10 098 930
Obligatory reserves with the Central Bank of the Russian Federation	Loans and receivables	Amortised cost	661 225	661 225
Financial instruments at fair value through profit or loss	FVTPL	FVTPL	4 018	4 018
Financial assets at fair value through other comprehensive income	Available for sale	FVTOCI	15 158 890	13 351 954
Financial instruments at fair value through profit or loss	Available for sale	FVTPL	-	1 963 792
Due from banks	Loans and receivables	Amortised cost	532 822	528 781
Amounts receivable under reverse repurchase agreements	Loans and receivables	Amortised cost	2 640 964	2 640 964
Loans to customers	Loans and receivables	Amortised cost	57 603 789	52 751 764
Net investments in finance leases	-	-	1 344 986	1 338 259
Investments at amortised cost	Held-to-maturity investments	Amortised cost	2 764 013	2 760 536
Other financial assets	Loans and receivables	Amortised cost	1 997 021	1 997 021
Total financial assets			**92 806 752**	**88 097 243**

(unaudited)	**Original classification under IAS 39**	**New classification under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
Financial liabilities				
Financial instruments at fair value through profit or loss	FVTPL	FVTPL	876 662	876 662
Deposits and balances from banks	Amortised cost	Amortised cost	1 527 288	1 527 288
Amounts payable under repurchase agreements	Amortised cost	Amortised cost	2 377 631	2 377 631
Current accounts and deposits from customers	Amortised cost	Amortised cost	79 141 900	79 141 900
Debt securities issued	Amortised cost	Amortised cost	1 229 719	1 229 719
Subordinated borrowings	Amortised cost	Amortised cost	3 920 516	3 920 516
Other financial liabilities	Amortised cost	Amortised cost	275 666	343 343
Total financial liabilities			**89 349 382**	**89 417 059**

The Group's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 3(c)(i). The application of these policies resulted in the reclassifications set out in the table above and explained below.

a. Certain debt securities are held by the Group Central Treasury in a separate portfolio for long-term yield. These securities may be sold, but such sales are not expected to be more than infrequent. The Group considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows. These assets are classified as measured at amortised cost under IFRS 9.

b. Certain debt securities are held by the Group Central Treasury in separate portfolios to meet everyday liquidity needs. The Group Central Treasury seeks to minimise the costs of managing those liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual payments as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value. The Group considers that under IFRS 9 these securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

c. Certain non-trading debt securities are held by the Group Central Treasury in separate portfolios and are managed with an objective of realising cash flows through sale. The Group primarily focuses on fair value information and uses that information to assess the securities' performance and to make decisions. In addition, certain asset-backed securities have contractual cash flows that are not solely payments of principal and interest. These assets are therefore measured at FVTPL under IFRS 9.

d. Certain equity investments held by the Group for strategic purposes have been designated under IFRS 9 as at FVOCI. Before the adoption of IFRS 9, these securities were measured at cost because their fair value was not considered to be reliably measureable. IFRS 9 has removed this cost exception.

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

RUB'000 (unaudited)	IAS 39 carrying amount 31 December 2017	Reclassifi-cation	Re-measurement	IFRS 9 carrying amount 1 January 2018
Financial assets				
Amortised cost				
Cash and cash equivalents:				
Opening balance	10 099 024			
Remeasurement		-	(94)	
Closing balance				10 098 930
Obligatory reserves with the Central Bank of the Russian Federation	661 225	-	-	661 225
Due from banks:				
Opening balance	532 822			
Remeasurement		-	(4 041)	
Closing balance				528 781
Amounts receivable under reverse repurchase agreements	2 640 964	-	-	2 640 964
Loans to customers:				
Opening balance	57 603 789			
Remeasurement		-	(4 852 025)	
Closing balance				52 751 764
Investments at amortised cost:				
Opening balance	-			
From held-to-maturity		2 764 013	-	
Remeasurement		-	(3 477)	
Closing balance				2 760 536
Net investments in finance leases:				
Opening balance	1 344 986			
Remeasurement		-	(6 727)	
Closing balance				1 338 259
Other financial assets	1 997 021	-	-	1 997 021
Held-to-maturity investments:				
Opening balance	2 764 013			
To amortised cost		(2 764 013)	-	
Closing balance				-
Total at amortised cost	**77 643 844**	**-**	**(4 866 364)**	**72 777 480**
FVOCI				
Available-for-sale financial assets				
Opening balance	15 158 890			
To FVTPL – Financial instruments at fair value through profit or loss		(1 963 792)	-	
To FVOCI – Financial assets at fair value through other comprehensive income		(13 195 098)	-	
Closing balance				-
Financial assets at fair value through other comprehensive income				
Opening balance	-			
From available-from-sale financial assets		13 195 098	-	
Remeasurement		-	156 856	
Closing balance				13 351 954
Total FVOCI	**15 158 890**	**(1 963 792)**	**156 856**	**13 351 954**

RUB'000 (unaudited)	IAS 39 carrying amount 31 December 2017	Reclassification	Re-measurement	IFRS 9 carrying amount 1 January 2018
FVTPL				
Financial instruments at fair value through profit or loss				
Opening balance	4 018			
From financial assets at fair value through other comprehensive income		1 963 792	-	
Closing balance				1 967 810
Total FVTPL	**4 018**	**1 963 792**	**-**	**1 967 810**
Financial liabilities				
Other financial liabilities	275 666	-	67 677	343 343

As a result of the transition to IFRS 9, there are no changes in the classification or measurement of other financial liabilities.

The following table analyses the impact, net of tax, of transition to IFRS 9 on reserves and retained earnings.

RUB'000 (unaudited)	Impact of adopting IFRS 9 at 1 January 2018
Fair value reserve – financial assets at FVOCI (2017: available-for-sale)	
Closing balance under IAS 39 (31 December 2017)	189 533
Reclassification of financial assets from available-for-sale to FVTPL	(24 354)
Reclassification of impairment allowance on available-for-sale equity investment securities to Fair value reserve – FVOCI equity	(207 607)
Recognition of expected credit losses under IFRS 9 for debt investment securities at FVOCI	5 701
Opening balance under IFRS 9 (1 January 2018)	(36 727)
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	6 557 286
Remeasurement at fair value of reclassified financial instruments under IFRS 9	18 653
Reclassification of impairment allowance on available-for-sale equity investment securities to Fair value reserve – FVOCI equity	207 607
Recognition of expected credit losses under IFRS 9	(4 981 184)
Opening balance under IFRS 9 (1 January 2018)	1 802 362
Total changes in equity in connection with the application of IFRS 9	**(4 981 184)**

The following table reconciles:

- the closing impairment allowance for financial assets in accordance with IAS 39 as at 31 December 2017;
- the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

For financial assets, this table is presented by the related financial assets' measurement categories in accordance with IAS 39 and IFRS 9, and shows separately the effect of the changes in the measurement category on the loss allowance at the date of initial application of IFRS 9, i.e. as at 1 January 2018.

	Impairment (loss) allowance and provisions			
RUB'000	**31 December 2017 (IAS 39)**	**Reclassification**	**Remeasurement**	**1 January 2018 (IFRS 9)**
Loans to customers, receivables and held to maturity securities under IAS 39/financial assets at amortised cost under IFRS 9 (includes cash and cash equivalents, due from banks, loans to customers and investments)	23 043 546	-	4 685 389	27 728 935
Available-for-sale debt investment securities under IAS 39/ debt investment securities at FVOCI under IFRS 9	102 651	-	6 920	109 571
Available-for-sale equity investment securities under IAS 39 reclassified to equity investment securities at FVOCI under IFRS 9	156 857	-	-	156 857
	23 303 054	**-**	**4 692 309**	**27 995 363**
Loan commitments, financial guarantee contracts issued and letters of credit	-	-	67 677	67 677
	-	**-**	**67 677**	**67 677**

6 Allowance for expected credit losses and other provisions

	Nine-Month Period Ended 30 September 2018 RUB'000 (unaudited)	**Nine-Month Period Ended 30 September 2017 RUB'000 (unaudited)***
Loans to customers	3 711 680	1 387 869
Net investments in finance leases	(31 838)	(23 364)
Financial instruments at fair value through other comprehensive income	45 056	(28 281)
Investments at amortised cost	(3 365)	-
Due from banks	505 244	77 510
Credit related commitments	44 162	(43 670)
Other assets	79 294	47 162
	4 350 233	**1 417 226**

Other provisions in the amount of RUB 753 392 thousand represent a change in the provision for other contingent liabilities, most of which are represented by litigation with the State Corporation Deposit Insurance Agency - the bankruptcy trustee of PJSC "M2M Private Bank" in amount of RUB 663 047 thousand and litigation with the Territorial Administration of the Federal Property Management Agency in Primorye district" in amount of RUB 66 815 thousand. Contingent litigation is recorded in the caption "Other liabilities".

As at 30 September 2018 amount of contingent non-credit liabilities (reimbursement of legal claims on promissory notes of FTK LCC), stated in the off-balance amounted to RUB 3 990 319 thousand, of which the amount of claims by bill holders was RUB 897 310 thousand.

** The corresponding figures as at and for the nine-month period ended 30 September 2017 are not reviewed.*

7 Cash and cash equivalents

	30 September 2018 RUB’000 (unaudited)	31 December 2017 RUB’000
Cash on hand	**3 839 173**	**2 944 433**
Nostro accounts with the CBR	**1 706 322**	**3 948 691**
Nostro accounts with other banks		
- Largest 30 Russian banks	974 562	1 324 053
- OECD banks	320 495	542 818
- Other Russian banks	109 439	123 853
- Other foreign banks	37 161	14 493
Total nostro accounts with other banks	**1 441 657**	**2 005 217**
Term deposits in the CBR	**-**	**1 200 683**
Allowance for expected credit losses	(4 625)	-
Total cash and cash equivalents	**6 982 527**	**10 099 024**

8 Financial assets at fair value through other comprehensive income

	30 September 2018 RUB’000 (unaudited)	31 December 2017 RUB’000
Held by the Group		
- Government, the CBR and municipal bonds		
Russian Government Federal bonds (OFZ)	7 808 747	2 201 940
Regional authorities bonds	222 362	248 653
The CBR bonds	1 522 226	6 583 010
Total government, the CBR and municipal bonds	**9 553 335**	**9 033 603**
- Bonds of governments of other countries		
rated from A and above	433 813	-
Total bonds of governments of other countries	**433 813**	**-**
- Corporate bonds		
rated from BB-	-	2 959 608
rated from BBB- to BBB+	2 139 045	-
banks with revoked license	102 651	102 651
not rated	287 746	-
Total corporate bonds	**2 529 442**	**3 062 259**
- Corporate shares		
rated B+ and below	718 935	2 840 668
not rated	212 143	388 504
Total corporate shares	**931 078**	**3 229 172**

	30 September 2018 RUB’000 (unaudited)	31 December 2017 RUB’000
Total financial assets at fair value through other comprehensive income held by Group	**13 447 668**	**15 325 034**
Pledged under sale and repurchase agreements		
- Corporate bonds		
rated from BB- to BBB+	-	93 364
Total corporate bonds	**-**	**93 364**
Total financial assets at fair value through other comprehensive income pledged under sale and repurchase agreements	**-**	**93 364**
Total financial assets at fair value through other comprehensive income	**13 447 668**	**15 418 398**
Allowance for expected credit losses*/Impairment allowance	**(154 627)**	**(259 508)**

** The allowance for expected credit losses presented above is not recognized in the consolidated interim condensed statement of financial position, since the carrying amount of debt securities at fair value through other comprehensive income is their fair value.*

Corporate ratings are based on Standard & Poor's ratings or equivalent ratings by Fitch Rating and Moody's.

Analysis of changes in the allowance for expected credit losses:

	Nine-Month Period Ended 30 September 2018 RUB’000 (unaudited)	Nine-Month Period Ended 30 September 2017 RUB’000 (unaudited)*
Opening balance of the allowance for expected credit losses	109 571	257 979
Net charge	45 056	(28 281)
Write-offs	-	(18 850)
Closing balance of the allowance for expected credit losses	**154 627**	**210 848**

** The corresponding figures as at and for the nine-month period ended 30 September 2017 are not reviewed.*

As at 31 December 2017 available-for-sale financial assets stated at cost comprised unquoted securities for the amount of RUB 1 237 643 thousand. There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty regarding future cash flows in this industry. However, management of the Group believes it unlikely that the fair value at 31 December 2017 would differ significantly from that carrying amount.

As at 30 September 2018, the value of unquoted corporate shares measured at fair value through other comprehensive income for the period equals RUB 931 078 thousand and relates to the level 3 in the fair value hierarchy.

9 Loans to customers

	30 September 2018 RUB’000 (unaudited)	**31 December 2017 RUB’000**
Loans to corporate customers	**26 805 772**	**29 796 847**
Loans to retail customers		
Consumer loans	43 145 946	40 916 298
Mortgage loans	2 961 541	3 820 645
Total loans to retail customers	**46 107 487**	**44 736 943**
Gross loans to customers	**72 913 259**	**74 533 790**
Allowance for expected credit losses	(27 728 681)	(16 930 001)
Net loans to customers	**45 184 578**	**57 603 789**

Movements in the allowance for expected credit losses on loans to customers for the nine-month period ended 30 September 2018 are as follows:

	RUB’000 (unaudited)
Opening balance of the allowance for expected credit losses	**21 477 708**
Net charge	3 711 680
Unwinding of discount	4 613 299
Write-offs	(2 074 006)
Closing balance of the allowance for expected credit losses	**27 728 681**

Movements in the loans to customers impairment allowance for the nine-month period ended 30 September 2017 are as follows:

	RUB’000 (unaudited)*
Opening balance of the impairment allowance	**17 083 236**
Net charge	1 387 869
Write-offs	(220 095)
Closing balance of the impairment allowance	**18 251 010**

** The corresponding figures as at and for the nine-month period ended 30 September 2017 are not reviewed.*

10 Net investments in finance leases

Net investments in finance leases comprise:

	30 September 2018 RUB’000 (unaudited)	31 December 2017 RUB’000
Gross investments in finance leases	1 472 266	1 888 132
Less unearned finance lease income	(314 524)	(450 889)
	1 157 742	**1 437 243**
Less allowance for expected credit losses	(36 605)	(92 257)
Net investments in finance leases	**1 121 137**	**1 344 986**

Movements in the allowance for expected credit losses are as follows:

	Nine-Month Period Ended 30 September 2018 RUB’000 (unaudited)	Nine-Month Period Ended 30 September 2017 RUB’000 (unaudited)*
Opening balance of the allowance for expected credit losses	98 984	259 052
Net charge	(31 838)	(23 364)
Write-offs	(30 541)	-
Closing balance of the allowance for expected credit losses	**36 605**	**235 688**

** The corresponding figures as at and for the nine-month period ended 30 September 2017 are not reviewed.*

11 Investments in associates and other investments

Associates and other investments comprise the following:

			Ownership %		30 September 2018 Carrying value RUB’000 (unaudited)	31 December 2017 Carrying value RUB’000
Name	**Country of incorporation**	**Main activity**	**30 September 2018 (unaudited)**	**31 December 2017**		
PJSC “M2M Private Bank”	Russian Federation	Banking	100%	100%	2 300 000	2 300 000
CUIF “Celena”	Russian Federation	Unit investment fund	41.09%	40.99%	93 410	108 731
Impairment allowance					(2 300 000)	(2 300 000)
					93 410	**108 731**

The following table summarises the financial information of CUIF "Celena" as at 30 September 2018 and as at 31 December 2017 and for the nine months ended 30 September 2018 and 30 September 2017, and reconciliation of carrying amount of the Group's interest in associate:

	30 September 2018 RUB'000 (unaudited)	**31 December 2017 RUB'000**
Total assets	233 307	271 207
Total liabilities	(5 950)	(5 941)
Net assets	227 357	265 266
Group's share of net assets (41.09%)	**93 410**	**108 731**

	Nine-Month Period Ended 30 September 2018 RUB'000 (unaudited)	**Nine-Month Period Ended 30 September 2017 RUB'000 (unaudited)***
Net loss for the year	(7 011)	(16 416)
Group's share of net loss for the year	**(7 011)**	**(16 416)**

** The corresponding figures as at and for the nine-month period ended 30 September 2017 are not reviewed.*

12 Current accounts and deposits from customers

	30 September 2018 RUB'000 (unaudited)	**31 December 2017 RUB'000**
Current accounts and demand deposits		
- Retail	6 753 222	7 016 255
- Corporate	9 160 456	10 752 784
Term deposits		
- Retail	45 609 196	55 862 087
- Corporate	3 936 571	5 510 774
	65 459 445	**79 141 900**

13 Debt securities issued

	30 September 2018 RUB'000 (unaudited)	**31 December 2017 RUB'000**
Bonds	663 442	1 201 126
Promissory notes	87 917	28 593
	751 359	**1 229 719**

Bonds as at 30 September 2018 and 31 December 2017 are presented by 2 issues made by MA APB and MA APB 2.

In December 2012, the Group issued RUB 1 521 863 thousand of mortgage backed securities with a coupon rate of 8.75% and maturity date not later than 26 April 2045 with partially repayments each quarter.

In February 2014, the Group issued RUB 2 553 000 thousand of mortgage backed securities with a coupon rate of 9% and maturity date not later than 1 October 2046 with partially repayments each quarter.

14 Subordinated borrowings

	30 September 2018 RUB’000 (unaudited)	**31 December 2017 RUB’000**
Subordinated loans	-	3 920 516
	-	**3 920 516**

On 21 November 2012 the Bank attracted a subordinated loan in the amount of USD 30 million from one of the Bank’s shareholders - IFC. The loan with interest rate of 12.92% as at 31 December 2017 mature by tranches until 16 December 2019.

On 10 July 2014, the Group issued subordinated Loan Participation Notes in the amount of USD 42 million for 5.5 years with interest rate of 11.00% through SCI Finance B.V., partially consolidated structured entity incorporated in the Netherlands. This entity was partially consolidated because portion of the entity is a deemed separate entity which is in substance “ring-fenced” from the rest of the entity, and the Group has control over deemed separate entity. The Group consolidated only those assets and returns related to the issue of Loan Participation Notes.

On 29 June 2018, in accordance with the requirements of Federal Laws No. 395-1 FZ dated 2 December 1990 "On Banks and Banking Activities", No. 127 FZ dated 26 October 2002 "On Insolvency (Bankruptcy)" and in connection with the implementation of measures using the sources of own funds to cover losses of the Bank, the Temporary Administration decided to terminate the Bank's obligations under subordinated instruments.

In the consolidated interim condensed statement of profit or loss and other comprehensive income for the nine months ended 30 September 2018, the profit from the termination of recognition of subordinated loans in the amount of RUB 4 421 322 thousand was recognised in other operating income.

15 Share capital

Issued capital

Movements in share capital for the nine months ended 30 September 2018 are as follows:

	Shares (thousands)	**Nominal amount, RUB'000**	**Inflation adjustment, RUB'000**	**Total, RUB'000**
Ordinary shares	5 064 574 366 154	567 232	7 875	575 107
Preferred shares	250	-	-	-
Treasury shares	90 716 575 484	10 160	147	10 307
Balance as at 1 January 2018	**5 155 290 941 888**	**577 392**	**8 022**	**585 414**
Ordinary shares (unaudited)	30 931 745 649 742 401 424 266	6 000 000	-	6 000 000
Preferred shares (unaudited)	250	0	-	0
Treasury shares (unaudited)	90 716 575 484	0	-	0
Balance as at 30 September 2018 (unaudited)	**30 931 745 649 833 118 000 000**	**6 000 000**	**-**	**6 000 000**

In accordance with Article 189.50 of the Federal Law No. 127-FZ dated 26.10.2002 "On Insolvency (Bankruptcy)", in connection with the establishment by the Bank of Russia of a negative value of the amount of equity (capital) of the Bank, on the basis of the decision of the Committee on Banking Supervision of 10 July 2018, the size of the share capital of the Bank was reduced to one Rouble.

The reduction of the Bank's share capital was made by converting issued ordinary and preferred shares of the Bank into the shares in the same categories with a lower nominal value: all shares with a nominal value of RUB 0.000000112 each and total nominal value RUB 577 392 585.47 were converted to shares with a nominal value RUB 1/5 155 290 941 638 853 each and total nominal value one Rouble.

28 September 2018 the Bank of Russia additionally capitalized the Bank at RUB 9 billion using the funds of the "Fund of Banking Sector Consolidation Asset Management Company". The funds were directed to acquision of additional issue of shares of the Bank. In the result of that, the Bank of Russia became the owner of 99.9% shares of the Bank.

Additional capitalization was made by additional placement of 30 931 745 644 677 827 058 361 147 ordinary shares of the Bank with a nominal value of one share RUB 1/5 155 290 941 638 853 with total nominal value of RUB 5 999 999 999. The actual price of shares issue amounted to RUB 8 999 999 999/30 931 745 644 677 827 058 361 147, which led to the share premium in the total amount of RUB 3 000 000 000.

In the result of the additional capitalization the total share quantity of the Bank amounted 30 931 745 649 833 118 000 000 000, including 30 931 745 649 833 117 999 750 000 ordinary shares and 250 000 preferred shares of the Bank with a nominal value RUB 1/5 155 290 941 638 853 each and total nominal value RUB 6 000 000 000.

16 Related party transactions

(a) Control relationships

On 26 April 2018 the Bank of Russia decided to implement measures aimed at increasing the Bank's financial stability with the use of funds from the Fund of Banking Sector Consolidation. Starting from the specified date, the ultimate beneficiary of the Group is the state.

The Group discloses information about operations with the Bank of Russia and the banks under its control.

Income and expenses of the Group, received from the beginning of the reporting year to 26 April 2018 from operations with members of the Board of Directors and the Management Board, shareholders and other related parties are stated in the tables below.

The Group's parent company was LLC "PPFIN Region" (Russian Federation). As at 31 December 2017, the collective ultimate controlling parties of the Group were Mr. Andrey Vdovin (the owner of 19.724%), Mr. Alexey Maslovsky (the owner of 19.724%), Mr. Peter Hambro (the owner of 19.724%).

(b) Operations with Bank of Russia and banks under its control

The outstanding balances as at 30 September 2018 with the Bank of Russia and banks under its control are as follows:

Consolidated interim condensed statement of financial position	30 September 2018 RUB'000 (unaudited)
ASSETS	
Cash and cash equivalents	1 950 034
Obligatory reserves with the Central Bank of the Russian Federation	539 244
Financial assets at fair value through other comprehensive income	1 521 454
Other assets	8 898
LIABILITIES	
Derivative financial instruments	580
Debt securities issued	22 610
Other liabilities	20

Amounts included in the consolidated interim condensed statement of profit or loss and other comprehensive income in relation to transactions with the Bank of Russia and banks under its control for the period from 26 April 2018 to 30 September 2018 are as follows:

Consolidated interim condensed statement of profit or loss and other comprehensive income	RUB'000 (unaudited)
Interest income on funds placed in the Bank of Russia	11 715
Interest income on debt securities of the Bank of Russia	53 986
Other income from operations with securities of the Bank of Russia	262
Net income from operations with foreign currency	275 423
Interest expense on funds received from the Bank of Russia	(69 719)
Other expense from operations with debt securities of the Bank of Russia	(527)
Change of impairment losses	(2 973)

(c) Transactions with the members of the Board of Directors and the Management Board

Total remuneration to the members of the Board of Directors and the Management Board included in personnel expenses for the nine-month period ended 30 September is as follows:

	Nine-Month Period Ended 30 September 2018 RUB’000 (unaudited)	Nine-Month Period Ended 30 September 2017 RUB’000 (unaudited)*
Short-term benefits to the members of the Board of Directors and the Management Board	26 132	96 155
	26 132	**96 155**

** The corresponding figures as at and for the nine-month period ended 30 September 2017 are not reviewed.*

The outstanding balances and average effective interest rates as at 31 December 2017 for transactions with the members of the Board of Directors and the Management Board are as follows:

	31 December 2017 RUB’000	Average effective interest rate, %
Consolidated statement of financial position		
ASSETS		
Other assets	60	-
LIABILITIES		
Current accounts and deposits from customers	17 721	4.81%
Other liabilities	39 061	-

Other amounts included in the consolidated interim condensed statement of profit or loss and other comprehensive income in relation to transactions with the members of the Board of Directors and the Management Board for the nine-month period ended 30 September are as follows:

	Nine-Month Period Ended 30 September 2018 RUB’000 (unaudited)	Nine-Month Period Ended 30 September 2017 RUB’000 (unaudited)*
Consolidated interim condensed statement of profit or loss and other comprehensive income		
Interest income	-	15 569
Interest expense	-	(139)
Impairment allowance recovery	-	155

** The corresponding figures as at and for the nine-month period ended 30 September 2017 are not reviewed.*

(d) Transactions with former shareholders

The outstanding balances and average effective interest rates as at 31 December 2017 for transactions with former shareholders owning more than 10% of share capital are as follows:

	31 December 2017 RUB'000	**Average effective interest rate, %**
Consolidated statement of financial position		
ASSETS		
Loans to customers	4 707 815	13.25%
(including allowance for impairment)	*(841 711)*	-
Other assets	671	-
LIABILITIES		
Current accounts and deposits	438 130	0.94%
Subordinated borrowings	1 390 343*	12.92%

*It includes subordinated borrowings from the International Financial Corporation, attracted 21 November 2012.

Amounts included in the consolidated interim condensed statement of profit or loss and other comprehensive income in relation to transactions with shareholders for the period till 26 April 2018 are as follows:

	For the Period till 26 April 2018 RUB'000 (unaudited)	**Nine-Month Period Ended 30 September 2017 RUB'000 (unaudited)***
Consolidated interim condensed statement of profit or loss and other comprehensive income		
Interest income	95 711	162 906
Interest expense	(57 387)	(170 728)
Impairment allowance loss	(2 136 349)	(574 290)
Consolidated interim condensed statement of changes in equity		
Impact of adopting IFRS 9 as of 1 January 2018	(2 668 219)	-

* *The corresponding figures as at and for the nine-month period ended 30 September 2017 are not reviewed.*

(e) Transactions with other related parties

Other related parties are represented by companies controlled by management, shareholders and the ultimate beneficial collective owners of the Group.

The outstanding balances and average effective interest rates as at 31 December 2017 for transactions with other related parties are as follows:

	31 December 2017 RUB’000	Average effective interest rate, %
Consolidated interim condensed statement of financial position		
ASSETS		
Investments in associates	108 731	-
Other assets	127 329	-
LIABILITIES		
Current accounts and deposits from customers	9 753	4.05%
Other liabilities	3 102	-
Commitments		-
Credit related commitments	10 000	-

Amounts included in the consolidated interim condensed statement of profit or loss and other comprehensive income in relation to transactions with other related parties for the period till 26 April 2018 are as follows:

	Period till 26 April 2018 RUB’000 (unaudited)	Nine-Month Period Ended 30 September 2017 RUB’000 (unaudited)*
Consolidated interim condensed statement of profit or loss and other comprehensive income		
Interest income	-	347
Interest expense	-	(350)
Fee and commission income	4 244	84 412
Loss from equity-accounted investee	(12 267)	(16 416)

** The corresponding figures as at and for the nine-month period ended 30 September 2017 are not reviewed.*

(f) Information about balances with state institutions

In the course of its daily activities, the Group operates with state institutions of the Russian Federation and companies controlled by the state. The Group performs these operations on market conditions. The following table discloses significant transactions with government agencies and state-controlled companies, as well as companies with significant state influence:

	30 September 2018 RUB’000
Consolidated interim condensed statement of financial position	
ASSETS	
Cash and cash equivalents	1 398 018
Financial assets at fair value through other comprehensive income	9 916 528
Financial assets at fair value through profit or loss	2 613 040

	30 September 2018 RUB'000
Loans to customers	1 550 897
Investments at amortized cost	33 040
Other assets	3 352
LIABILITIES	
Current accounts and deposits from customers	3 200 659
Debt securities issued	31
Other liabilities	743 661

The amounts included in the consolidated interim condensed statement of profit or loss and other comprehensive income for operations with state institutions for the nine months ended 30 September are as follows:

	Nine-Month Period Ended 30 September 2018 RUB'000 (unaudited)
Consolidated interim condensed statement of profit or loss and other comprehensive income	
Impairment allowance	(104 962)
Other provisions	(729 862)

17 Financial assets and liabilities: fair values and accounting classifications

a. Accounting classifications and fair values

The estimates of fair value are intended to approximate the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

The estimated fair value of all financial instruments as at 30 September 2018 approximates their carrying value.

The estimated fair value of all financial instruments as at 31 December 2017 approximates their carrying value.

b. Fair value hierarchy

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Group has a control framework with respect to the measurement of fair values. This framework includes a Market Risks Department function, which reports directly to the member of the Temporary administration, and which has responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing
- re-performance of model valuations
- analysis and investigation of significant daily valuation movements.

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, Market Risks Department assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet IFRS requirements. This includes:

- verifying that the broker or pricing service is approved by the Group for use in pricing the relevant type of financial instrument
- understanding how the fair value has been arrived at the extent to which it represents actual market transactions
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;
- where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

The table below analyses financial instruments measured at fair value as at 30 September 2018, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated interim condensed statement of financial position:

RUB '000 (unaudited)	Level 1	Level 2	Level 3	Total
Financial instruments at fair value through profit or loss				
- Derivative assets	-	20 457	-	20 457
- Debt instruments	3 012 349			3 012 349
- Derivative liabilities	-	(8 459)	-	(8 459)
Financial assets at fair value through other comprehensive income	12 413 939	-	931 078	13 345 017

As at 30 September 2018, the cost of unquoted investments at fair value through other comprehensive income is RUB 931 078 thousand and is categorised in Level 3 in the fair value hierarchy.

The table below represent the reconciliation of financial assets balances as of the beginning and as of the ending of reporting period, categorised in Level 3 at fair value through profit or loss for the period:

RUB' 000 (unaudited)	31 December 2017 RUB'000	Impact of adopting IFRS 9	Foreign currency differences recognised in profit or loss	Revaluation at fair value through other comprehensive income	Sold	30 September 2018 RUB'000
Financial assets at fair value through other comprehensive income	3 229 173	(156 857)	47 942	(377 031)	(1 812 149)	931 078
Allowance for expected credit losses	(156 857)	156 857	-	-	-	-

The table below represent the information about observable inputs used as at 30 September 2018 that are significant to the entire measurement of financial instruments, which are categorised at the level of the fair value hierarchy Level 3 as at 30 September 2018:

Type of instrument	Fair value	Method of estimate	Significant unobservable inputs	Used value of unobservable inputs	Range of estimates (weighted) for unobservable inputs	The sensitivity of the fair value measurement to changes in unobservable inputs
Financial assets at fair value through other comprehensive income						
Other equity instruments Sanymon Corporation	192 836	Income approach	Discount rate Other risk, associated with owning the asset	17.12% N/a	N/a N/a	A significant increase in any of the specified inputs in isolation will result in a decrease in fair value. Significant reduction will lead to higher fair value.
Other equity instruments PJSC Zapsibkombank	718 935	Income and comparative approach	Discount rate Discount for non-controlling package Other adjustments on the liquidity	23.6% 27.4%	N/a N/a	A significant increase in any of the specified inputs in isolation will result in a decrease in fair value. Significant reduction will lead to higher fair value.
Other equity instruments CUIF "Kvant"	19 307	Comparative and cost method	Adjustments on the object condition	20.75%	0-35%	A significant increase in any of the specified inputs in isolation will result in a decrease in fair value. Significant reduction will lead to higher fair value.

The table below analyses financial instruments measured at fair value as at 31 December 2017, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position:

RUB '000	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial instruments at fair value through profit or loss				
- Derivative assets	-	4 018	-	4 018
- Derivative liabilities	-	(189 106)	-	(189 106)
Liabilities on reverse delivery of realized securities, received on operations under reverse repurchase agreements	(687 556)	-	-	(687 556)
Financial assets at fair value through other comprehensive income	13 921 248	-	-	13 921 248

As at 31 December 2017, the cost of unquoted available-for-sale investments is RUB 1 237 642 thousand. There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty regarding future cash flows in this industry.

Fair value of loans to customers, subordinated borrowings and debt securities issued relates to Level 3. Fair value of all other financial instruments at amortised cost is categorised in Level 2.

During 2018 buildings in fixed assets and investment property were revalued, based on the results of appraisal of independent appraisal company and the Group.

Changes in the value of fixed assets and investment property are reflected in the consolidated interim condensed statement of changes in equity as part of changes in the building revaluation reserve, as well as in the consolidated interim condensed statement of profit or loss and other comprehensive income in other general and administrative expenses.

As at 31 December 2017 buildings in fixed assets and investment property were revalued, based on the results of appraisal of independent appraisal company S.A.Ricci.

Fair value of buildings in fixed assets and investment property is categorised in Level 3.

18 Going concern

Management of the Group has prepared this consolidated interim condensed financial information on a going concern basis.

In April 2018 the Bank violated mandatory ratios N1.2 (main capital ratio) and N6 (maximum risk exposure ratio per borrower or group of related borrowers). These violations arose due to significant decrease of equity (capital) as a result of the creation of provisions for possible losses up to 100% under the Russian Accounting Legislation on investments in the subsidiary bank PJSC "M2M Private Bank" and the parent company (related through shareholder LLC "PPFIN Region") "VMHY Holdings Limited", which is also a borrower of the Group.

Due to the high social significance of the Bank in the regions of Siberia and the Far East on 26 April 2018, the Bank of Russia decided to implement measures to improve financial stability of the PJSC Asian-Pacific Bank.

As part of measures to ensure the ability of the Bank to continue as a going concern in the market of banking services and to improve its financial stability, the Bank of Russia additionally capitalized the Bank using the funds of LLC «Fund of Banking Sector Consolidation Asset Management Company» and became 99.99% owner of the Bank. The Bank of Russia will provide funds to the Bank to maintain liquidity. No moratorium on payments to creditors is imposed.

The Board of Directors of the Bank of Russia took a decision to guarantee the going concern basis of the Bank during the period of implementation of the Bank of Russia plan for prevention of bankruptcy of the Bank.

In order to implement all necessary measures to support and further develop the Bank's activity, the Bank of Russia ordered (Order No. OD-1076 dated 25 April 2018) to assign the functions of the temporary administration for the management of the PJSC Asian-Pacific Bank to LLC "Fund of Banking Sector Consolidation Asset Management Company" from 26 April 2018. Powers of shareholders, the Board of Directors and the Management Board are suspended.

From 26 October 2018 the functions of the temporary administration are extended for 6 months. After additional capitalization all mandatory ratios are met requirements of the Bank of Russia. The Bank controls the main capital ratio. According to the Bank of Russia requirements the main capital ratio N1.0 must be not less than 8.0%. As at 30 September 2018 main capital ratio N1.0 equals 11.0% (unaudited) (31 December 2017: 10.6%). Maximum risk exposure ratio per borrower or group of related borrowers (N6) must be not more than 25.0%. As at 30 September 2018 regulatory capital adequacy ratio (N6) equals 23.8% (unaudited) (31 December 2017: 21.5%).