

Report on Review of
Interim Financial Information
***Joint stock company Russian Agricultural Bank
and its subsidiaries***
for the three-month period ended 31 March 2019
May 2019

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Report on Review of Interim Financial Information

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Joint stock company Russian Agricultural Bank and its subsidiaries, which comprise the interim consolidated statement of financial position as at 31 March 2019, the interim consolidated statement of profit or loss and other comprehensive income, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the three-month period then ended, and selected explanatory notes (interim financial information). Management of Joint stock company Russian Agricultural Bank is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

Conclusion

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



G.A. Shinin
Partner
Ernst & Young LLC

24 May 2019

Details of the entity

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

Details of the auditor

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


Russian Agricultural Bank Group
Interim Consolidated Statement of Financial Position
as at 31 March 2019

<i>In millions of Russian Roubles</i>	Note	31 March 2019 (unaudited)	31 December 2018
Assets			
Cash and cash equivalents		534 632	390 585
Mandatory cash balances with the Bank of Russia		21 090	20 651
Trading securities	5	20 004	19 226
Due from other banks		54 657	38 717
Derivative financial instruments	19	17 214	17 767
Loans and advances to customers	6	2 014 288	1 957 767
Investment securities	7	510 648	532 185
Investment securities pledged under repurchase agreements	7	-	40 264
Current income tax assets		558	573
Deferred income tax asset		16 298	16 298
Intangible assets		6 671	6 113
Premises, equipment and right-of-use assets		46 612	50 186
Other assets		20 746	23 810
Assets classified as held for sale		814	640
Total assets		3 264 232	3 114 782
Liabilities			
Derivative financial instruments	19	3 765	9 213
Due to other banks	8	93 267	171 530
Customer accounts	9	2 637 532	2 421 051
Promissory notes issued		41 567	42 341
Bonds issued	10	143 617	142 609
Current income tax liability		42	89
Deferred income tax liability		737	1 658
Other liabilities		51 817	27 291
Total liabilities before subordinated debts		2 972 344	2 815 782
Subordinated debts		141 690	147 279
Total liabilities		3 114 034	2 963 061
Equity			
Share capital		410 598	410 598
Perpetual bonds	11	38 139	38 376
Revaluation reserve for premises		2 880	2 890
Revaluation reserve for investment securities at fair value through other comprehensive income		(3 747)	(3 769)
Accumulated loss		(297 609)	(298 074)
Equity attributable to the Bank's shareholder		150 261	150 021
Non-controlling interest		(63)	1 700
Total equity		150 198	151 721
Total liabilities and equity		3 264 232	3 114 782

Approved for issue and signed on behalf of the Management Board on 24 May 2019.


B.P. Listov
Chairman of the Management Board




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

Russian Agricultural Bank Group
Interim Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the three months ended 31 March 2019

(Unaudited) <i>In millions of Russian Roubles</i>	Note	For the three months ended 31 March	
		2019	2018
Interest income at effective interest rate	12	59 653	58 007
Other interest income	12	1 281	809
Interest expense at effective interest rate	12	(44 230)	(41 369)
Net interest income		16 704	17 447
Credit loss expense	13	(8 815)	(10 615)
Net interest income after credit loss expense		7 889	6 832
Fee and commission income	14	5 255	5 634
Fee and commission expense	14	(561)	(955)
Losses net of gains from trading securities		(43)	(33)
(Losses net of gains)/gains less losses from financial instruments and loans to customers at fair value through profit or loss		(970)	57
(Losses net of gains)/gains less losses from investment securities at fair value through other comprehensive income		(731)	1 797
Foreign exchange translation (losses net of gains)/gains less losses		(10 157)	889
Gains less losses/(losses net of gains) from derivative financial instruments		12 797	(411)
Gains less losses from dealing in foreign currencies		1 192	98
Gains from non-banking activities		3 274	2 655
Losses from non-banking activities		(2 789)	(1 783)
Other operating income/(expense)		298	(163)
Administrative and other operating expenses		(13 834)	(12 106)
Profit before tax		1 620	2 511
Income tax expense		(1 067)	(1 635)
Profit for the period		553	876
Profit/(loss) is attributable to:			
Shareholder of the Bank		513	988
Non-controlling interest		40	(112)
Profit for the period		553	876
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Debt securities at fair value through other comprehensive income:			
- Net (losses)/gains on debt securities at fair value through other comprehensive income		(180)	1 737
- Realised revaluation reserve on debt securities (at disposal)		731	(1 797)
- Changes in allowance for expected credit losses of debt securities at fair value through other comprehensive income		(414)	17
Income tax		(115)	1
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods, net of tax		22	(42)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
- Net gains on equity securities at fair value through other comprehensive income		24	-
Other comprehensive income not to be reclassified to profit or loss in subsequent periods, net of tax		24	-
Total other comprehensive income/(loss)		46	(42)
Total comprehensive income for the period		599	834
Total comprehensive income/(loss) for the period is attributable to:			
Shareholder of the Bank		559	946
Non-controlling interest		40	(112)
Total other comprehensive income for the period		599	834

The notes set out on pages 9 to 41 form an integral part of these interim condensed consolidated financial statements.

Russian Agricultural Bank Group
Interim Consolidated Statement of Changes in Equity
for the three months ended 31 March 2019

<i>In millions of Russian Roubles</i>	Note	Attributable to shareholder of the Bank					Total	Non-controlling interest	Total equity
		Share capital	Perpetual bonds	Revaluation reserve for premises	Revaluation reserve for investment securities	Accumulated loss			
Balance at 31 December 2017		385 598	15 000	1 052	3 001	(214 214)	190 437	(21)	190 416
Impact of adopting IFRS 9		-	-	-	924	(84 138)	(83 214)	-	(83 214)
Restated opening balance under IFRS 9		385 598	15 000	1 052	3 925	(298 352)	107 223	(21)	107 202
Profit/(loss) for the period, net of tax		-	-	-	-	988	988	(112)	876
Other comprehensive loss for the period, net of tax		-	-	-	(42)	-	(42)	-	(42)
Total comprehensive income/(loss) for the period, net of tax		-	-	-	(42)	988	946	(112)	834
Depreciation of revaluation reserve for premises		-	-	(11)	-	11	-	-	-
Coupon paid and due under perpetual bonds		-	-	-	-	(401)	(401)	-	(401)
Tax effect recognized on perpetual bonds		-	-	-	-	80	80	-	80
Balance at 31 March 2018 (unaudited)		385 598	15 000	1 041	3 883	(297 674)	107 848	(133)	107 715
Balance at 31 December 2018		410 598	38 376	2 890	(3 769)	(298 074)	150 021	1 700	151 721
Profit for the period, net of tax		-	-	-	-	513	513	40	553
Other comprehensive loss for the period, net of tax		-	-	-	46	-	46	-	46
Total comprehensive income for the period, net of tax		-	-	-	46	513	559	40	599
Disposal of subsidiaries	22	-	-	-	-	-	-	(1 803)	(1 803)
Realised revaluation reserve for equity securities at fair value through other comprehensive income		-	-	-	(24)	24	-	-	-
Depreciation of revaluation reserve for premises		-	-	(10)	-	10	-	-	-
Foreign exchange translation of perpetual bonds		-	(237)	-	-	237	-	-	-
Coupon paid and due under perpetual bonds	11	-	-	-	-	(399)	(399)	-	(399)
Tax effect recognized on perpetual bonds		-	-	-	-	80	80	-	80
Balance at 31 March 2019 (unaudited)		410 598	38 139	2 880	(3 747)	(297 609)	150 261	(63)	150 198

The notes set out on pages 9 to 41 form an integral part of these interim condensed consolidated financial statements.

Russian Agricultural Bank Group
Interim Consolidated Statement of Cash Flows
for the three months ended 31 March 2019

(Unaudited) <i>In millions of Russian Roubles</i>	Note	For the three months ended 31 March	
		2019	2018
Cash flows from operating activities			
Interest received		60 468	54 450
Interest paid		(41 081)	(43 547)
Income received from trading in securities and financial instruments at fair value through profit or loss		40	1 618
Income received from derivative financial instruments		7 902	2 888
Income received from dealing in foreign currencies		1 198	99
Fees and commissions received		5 314	6 183
Fees and commissions paid		(561)	(955)
Other operating income received		506	474
Net income received from insurance operations		1 371	782
Income received from non-banking activities		1 645	2 880
Losses incurred from non-banking activities		(2 258)	(2 171)
Administrative and other operating expenses paid		(9 920)	(12 797)
Income tax paid		(821)	(718)
Cash flows from operating activities before changes in operating assets and liabilities		23 803	9 186
Changes in operating assets and liabilities			
<i>Net (increase)/decrease in operating assets</i>			
Mandatory cash balances with the Bank of Russia		(439)	(792)
Trading securities		(871)	1 139
Financial instruments at fair value through profit or loss		-	27
Due from other banks		(16 723)	(8 838)
Loans and advances to customers		(87 136)	(117 083)
Other assets		4 428	3 676
<i>Net increase/(decrease) in operating liabilities</i>			
Due to other banks		(74 536)	4 662
Customer accounts		237 482	9 198
Promissory notes issued		(484)	1 796
Other liabilities		16 220	(3 875)
Net cash from/(used in) operating activities		101 744	(100 904)
Cash flows from investing activities			
Acquisition of premises and equipment		(255)	(731)
Proceeds from disposal of premises and equipment		168	151
Acquisition of intangible assets		(14)	(212)
Acquisition of investment securities at FVTPL (mandatory)		(6 250)	-
Acquisition of investment securities at FVOCI		(148 926)	(274 802)
Proceeds from redemption and sales of investment securities at FVOCI		212 272	203 312
Acquisition of investment securities at amortised cost		(3 971)	-
Proceeds from redemption of investment securities at amortised cost		85	316
Net cash from/(used in) investing activities		53 109	(71 966)
Cash flows from financing activities			
Amounts paid on perpetual bonds	11	(723)	(723)
Buy back of subordinated debts		(288)	(426)
Proceeds from bonds issue		-	24 837
Buy back of bonds issued at or prior to put option date		(3)	(3 074)
Buy back of Eurobonds issued		-	(4 865)
Proceeds from sale of previously bought back bonds issued on domestic market		242	13
Proceeds from sale of previously bought back Eurobonds issued		-	3 428
Repayment of bonds and Eurobonds issued		-	(11 812)
Proceeds from sale of non-controlling interests in consolidated mutual funds		18	12
Payments on disposal of non-controlling interests in consolidated mutual funds		(1)	(7)
Net cash (used in)/from financing activities		(755)	7 383
Effect of exchange rate changes on cash and cash equivalents		(10 056)	1 026
Effect of expected credit losses on cash and cash equivalents		5	(1)
Net increase/(decrease) in cash and cash equivalents		144 047	(164 462)
Cash and cash equivalents at the beginning of the period		390 585	586 437
Cash and cash equivalents at the end of the period		534 632	421 975

The notes set out on pages 9 to 41 form an integral part of these interim condensed consolidated financial statements.

1 Introduction

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) for the three months ended 31 March 2019 for Joint Stock Company Russian Agricultural Bank (the “Bank”) and its subsidiaries (together referred to as the “Group”).

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

The Bank’s only shareholder is the Russian Federation acting through the Federal Agency for Managing State Property which holds the Bank’s issued and outstanding ordinary shares (77.11% from total share capital (31 December 2018: 77.11% from total share capital)), the Ministry of Finance of the Russian Federation which holds the Bank’s issued and outstanding preference shares (6.1% from total share capital (31 December 2018: 6.1% from total share capital)) and the State Corporation “Deposit Insurance Agency” which holds the Bank’s issued and outstanding preference shares (16.79% from total share capital (31 December 2018: 16.79% from total share capital)).

The Group’s structure comprises of the Bank and its subsidiaries. Principal subsidiaries of the Bank are Joint-stock company “RSHB-Insurance” (ownership interest of the Bank is 100%), RSHB Capital S.A. Societe Anonyme (Luxembourg) (structured entity incorporated for Eurobonds issue for the Bank), “RSHB Asset Management” Limited Liability Company (ownership interest of the Bank is 100%) and 35 companies operating in agricultural and other industries and mutual funds.

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

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

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

The Bank has 66 (31 December 2018: 66) branches within the Russian Federation. The Bank’s registered address is 119034 Russia, Moscow, Gagarinsky pereulok, 3. The Bank’s principal place of business is 123112 Russia, Moscow, Presnenskaya naberezhnaya, 10, building 2.

The number of the Group’s employees as at 31 March 2019 was 29 595 (31 December 2018: 29 862).

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

2 Operating Environment of the Group

Russian Federation. Continuing international sanctions against some Russian companies, including Joint stock company Russian Agricultural Bank, and citizens still have a negative impact on the Russian economy. The stability of oil prices, low unemployment and wage growth contributed to moderate economic growth in the reporting period. Such an economic environment has a significant impact on the Bank’s operations and financial position. Management takes all necessary measures to ensure the sustainability of the Bank’s operations. However, the future consequences of the current economic situation are difficult to predict, and current expectations and management estimates may differ from actual results.

2 Operating Environment of the Group (Continued)

During the three months ended 31 March 2019, the following were the key changes in selected macro-economic indicators:

- The Bank of Russia exchange rate appreciated from RR 69.4706 to RR 64.7347 per US Dollar;
- The Bank of Russia key rate did not change and amounted to 7.75% p.a.;
- The RTS stock exchange index increased from 1 068.7 to 1 198.1.

3 Summary of Significant Accounting Policies

Basis of preparation. These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018, which have been prepared in accordance with IFRS.

The functional currency of the Bank and its subsidiaries, and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles. As at 31 March 2019 the principal rates of exchange used for translating foreign currency balances were USD 1 = RR 64.7347 (31 December 2018: USD 1 = RR 69.4706), EUR 1 = RR 72.723 (31 December 2018: EUR 1 = RR 79.4605).

The accounting policies applied in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the changes introduced due to implementation of new and/or revised standards and interpretations as at 1 January 2019 or as at the date indicated, noted below.

IFRS 16 Leases. IFRS 16 was issued in January 2016 and it replaced IAS 17 *Leases*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee should recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees should also be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The Group decided that it will apply the standard using the modified retrospective method, without restatement of comparatives.

The Group elected to use the exemptions proposed by the standard on lease contracts for which the lease term ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The adoption of IFRS 16 led to recognition of right-of-use assets in the amount of RR 5.5 billion reflected in Consolidated Statement of Financial Position in line "Premises, equipment and right-of-use assets" and respective lease liability in the equal amount reflected in line "Other liabilities" starting 1 January 2019.

3 Summary of Significant Accounting Policies (Continued)

A reconciliation of the operating lease commitments to the liability under IFRS 16 is as follows.

<i>(Unaudited)</i> <i>In millions of Russian Roubles</i>	1 January 2019
Lease payments under operating lease	8 664
Adjustments to amount of lease payable:	
Recognition exemption: short-term leases	(261)
Recognition exemption: the underlying asset is of low value	(314)
Future lease payments that are due in periods subject to lease extension options that are reasonably certain to be exercised	1 874
Future lease payments under IFRS 16	9 963
Effect of discounting	(4 443)
Lease liability under IFRS 16	5 520

IFRIC 23 Uncertainty over Income Tax Treatment (issued in June 2017 and effective for annual periods beginning on or after 1 January 2019). The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation also addresses the assumptions an entity makes about the examination of tax treatments by taxation authorities, as well as how it considers changes in facts and circumstances.

Amendments to IFRS 9 — Prepayment Features with Negative Compensation. Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Group.

Amendments to IFRS 10 and IAS 28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014 amended in December 2015; effective date is not set). The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary is recognised only to the extent of unrelated investors' interests in that former subsidiary. The Group does not expect a material effect from application of these amendments.

Amendments to IAS 19 — Plan Amendment, Curtailment or Settlement. The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

3 Summary of Significant Accounting Policies (Continued)

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

Amendments to IAS 28 — Long-term interests in associates and joint ventures. The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

Annual improvements 2015-2017 cycle (issued in December 2017)

IFRS 3 Business Combinations. The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Group.

IFRS 11 Joint Arrangements. A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

IAS 12 Income Taxes. The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

IAS 23 Borrowing Costs. The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The accounting estimates and judgements applied in the preparation of these interim condensed consolidated financial statements are consistent with those applied in the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2018.

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

Impairment losses on financial assets. The measurement of impairment losses both under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit grading model, which assigns PDs to the individual grades;
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, and the effect on PDs, EADs and LGDs. Thus, the functional dependence of the level of defaults on macroeconomic factors is determined by evaluating the regression between the values of the default level and various transformations of this indicator taking into account macroeconomic factors such as GDP growth rate, growth rate of the agro-industrial complex, oil prices, inflation rate, etc.;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Fair value of financial instruments. Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 20.

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect fair reported values. Refer to Note 19.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter.

The business plan is based on management expectations that are believed to be reasonable under the circumstances and approved by the management of the Bank. A key assumption in the business plan is to obtain profits in subsequent financial years through widening of product range and client base.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

Structured entities. The Group considers RSHB Capital S.A. incorporated for Eurobonds issue for the Bank as consolidated structured entity under IFRS 12 requirements. As at 31 March 2019 the Group guarantees all obligations of the consolidated structured entity represented by subordinated debts in the amount of RR 26 225 million (31 December 2018: subordinated debts in the amount of RR 27 765 million). During three months ended 31 March 2019 and the year ended 31 December 2018 the Group did not provide any other financial support to the consolidated structured entity. The Group has no other current obligation or intention neither to provide financial or other support to the consolidated structured entity nor to assist it in obtaining financial support.

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

5 Trading Securities

<i>In millions of Russian Roubles</i>	31 March 2019 (unaudited)	31 December 2018
Federal loan bonds (OFZ)	15 588	15 532
Corporate bonds	4 298	3 683
Corporate shares	118	-
Municipal and subfederal bonds	-	11
Total trading securities	20 004	19 226

Trading securities are carried at fair value which also reflects any credit risk related write-downs.

Refer to Note 20 for the disclosure of fair value hierarchy for trading securities.

6 Loans and Advances to Customers

<i>In millions of Russian Roubles</i>	31 March 2019 (unaudited)	31 December 2018
Loans to legal entities	1 892 211	1 830 924
- Loans to corporates	1 869 281	1 801 780
- Lending for food interventions	22 930	29 144
Loans to individuals	436 025	434 233
Total loans and advances to customers at amortised cost (before impairment)	2 328 236	2 265 157
Less: allowance for impairment	(340 922)	(332 411)
Total loans and advances to customers at amortised cost	1 987 314	1 932 746
Loans to customers at fair value through profit or loss	26 974	25 021
Total loans and advances to customers	2 014 288	1 957 767

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

As at 31 March 2019, the Group has loans before impairment to ten largest borrowers (groups of borrowers) in the total amount of RR 593 825 million, or 26% of total loans and advances to customers before impairment (31 December 2018: the Group has loans before impairment to ten largest borrowers (groups of borrowers) in the total amount of RR 570 967 million, or 25% of total loans and advances to customers before impairment).

6 Loans and Advances to Customers (Continued)

An analysis of changes in the ECL allowances during the three months ended 31 March 2019 is, as follows:

<i>(Unaudited)</i> <i>In millions of Russian Roubles</i>	Stage 1	Stage 2	Stage 3	Total
Loans to legal entities				
ECL as at 1 January 2019	34 330	4 083	262 187	300 600
Transfers to Stage 1	85	(85)	-	-
Transfers to Stage 2	(9 456)	14 604	(5 148)	-
Transfers to Stage 3	(289)	(179)	468	-
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations (including expense on new issue and income from repayments)	(4 878)	(856)	13 132	7 398
Unwind of discount (recognised in interest income)	-	-	1 107	1 107
Changes due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	(1 081)	(1 081)
Foreign exchange adjustments	(155)	(313)	(68)	(536)
Allowance for loans sold during the period	-	-	(8 108)	(8 108)
Recovery of loans previously written off sold during the period	-	-	39	39
Recovery of loans previously written off	-	-	90	90
Disposal of subsidiaries	-	-	7 608	7 608
ECL as at 31 March 2019	19 637	17 254	270 226	307 117

<i>(Unaudited)</i> <i>In millions of Russian Roubles</i>	Stage 1	Stage 2	Stage 3	Total
Loans to individuals				
ECL as at 1 January 2019	1 389	758	29 664	31 811
Transfers to Stage 1	94	(94)	-	-
Transfers to Stage 2	(52)	542	(490)	-
Transfers to Stage 3	(55)	(482)	537	-
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations (including expense on new issue and income from repayments)	1 171	264	668	2 103
Unwind of discount (recognised in interest income)	-	-	59	59
Amounts written off	-	-	(6)	(6)
Allowance for loans sold during the period	-	-	(162)	(162)
ECL as at 31 March 2019	2 547	988	30 270	33 805

6 Loans and Advances to Customers (Continued)

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

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

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

6 Loans and Advances to Customers (Continued)

Refer to Note 20 for the disclosure of fair value of each class of loans and advances to customers and fair value hierarchy for loans and advances to customers. The information on related party transactions is disclosed in Note 21.

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

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

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

<i>(Unaudited)</i> <i>In millions of Russian Roubles</i>	31 March 2019	31 March 2018
Loans modified during the period		
Amortised cost before modification	-	364
Net modification loss	-	(71)
Loans modified since initial recognition		
Gross carrying amount at 1 January of loans for which loss allowance has changed to 12-month measurement during the period	-	1 567

7 Investment Securities

Investment securities including those pledged under repurchase agreements comprise:

<i>In millions of Russian Roubles</i>	31 March 2019 (unaudited)	31 December 2018
Investment securities at fair value through other comprehensive income	433 879	507 270
Investment securities at amortised cost	60 709	56 891
Investment securities at fair value through profit or loss	2 869	2 846
Investment securities at fair value through profit or loss (mandatory)	13 191	5 442
Total investment securities	510 648	572 449

7 Investment Securities (Continued)

<i>In millions of Russian Roubles</i>	31 March 2019 (unaudited)	31 December 2018
Investment securities at fair value through other comprehensive income		
Federal loan bonds (OFZ)	220 845	183 673
Corporate bonds	89 451	117 418
Bank of Russia bonds	70 411	105 809
Corporate Eurobonds	46 238	45 852
Municipal and subfederal bonds	6 796	12 857
State Eurobonds	14	638
Total debt securities at fair value through other comprehensive income	433 755	466 247
Corporate Eurobonds	-	31 477
Federal loan bonds (OFZ)	-	8 787
Total debt securities at fair value through other comprehensive income pledged under repurchase agreements	-	40 264
Equity securities		
Corporate shares	124	759
Total equity securities at fair value through other comprehensive income	124	759
Total investment securities at fair value through other comprehensive income	433 879	507 270

<i>In millions of Russian Roubles</i>	31 March 2019 (unaudited)	31 December 2018
Investment securities at amortised cost		
Corporate bonds	41 450	37 425
Municipal and subfederal bonds	15 752	15 868
Federal loan bonds (OFZ)	3 555	3 548
Corporate Eurobonds	195	208
Less: allowance for impairment	(243)	(158)
Total investment securities at amortised cost	60 709	56 891

<i>In millions of Russian Roubles</i>	31 March 2019 (unaudited)	31 December 2018
Investment securities at fair value through profit or loss		
Credit linked notes	597	574
Corporate shares	2 272	2 272
Total debt securities at fair value through profit or loss	2 869	2 846

7 Investment Securities (Continued)

<i>In millions of Russian Roubles</i>	31 March 2019 (unaudited)	31 December 2018
Investment securities at fair value through profit or loss (mandatory)		
Corporate bonds	8 950	3 386
Credit linked notes	1 785	1 646
Investments in mutual funds	65	207
Total debt securities at fair value through profit or loss (mandatory)	10 800	5 239
Equity securities		
Corporate shares	2 391	203
Total investment securities at fair value through profit or loss (mandatory)	13 191	5 442

Refer to Note 20 for the disclosure of the fair value hierarchy for investment securities.

8 Due to Other Banks

<i>In millions of Russian Roubles</i>	31 March 2019 (unaudited)	31 December 2018
Correspondent accounts and overnight placements of other banks	9 640	40 101
Borrowings from other banks with term to maturity:		
- repo deals less than 30 days	-	35 700
- less than 30 days	16 203	26 393
- from 31 to 180 days	414	132
- from 181 days to 1 year	2 599	63
- from 1 year to 3 years	676	1 051
- more than 3 years	15 539	20 037
Borrowings from the Bank of Russia with term to maturity:		
- less than 30 days	5 141	44
- from 31 to 180 days	1 325	2 442
- from 181 days to 1 year	3 007	4 255
- from 1 year to 3 years	38 723	41 312
Total due to other banks	93 267	171 530

Refer to Note 20 for the disclosure of the fair value and fair value hierarchy for due to other banks. The information on related party transactions is disclosed in Note 21.

9 Customer Accounts

<i>In millions of Russian Roubles</i>	31 March 2019 (unaudited)	31 December 2018
State and public organisations		
- Current/settlement accounts	22 908	23 683
- Term deposits	632 694	569 886
Other legal entities		
- Current/settlement accounts	201 684	173 689
- Term deposits	713 530	618 974
Individuals		
- Current/demand accounts	81 221	85 378
- Term deposits	985 495	949 441
Total customer accounts	2 637 532	2 421 051

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

Economic sector concentrations within customer accounts are as follows:

<i>In millions of Russian Roubles</i>	31 March 2019 (unaudited)		31 December 2018	
	Amount	%	Amount	%
Individuals	1 066 716	40	1 034 819	43
State and public organisations	655 602	25	593 569	25
Trading	157 075	6	95 303	3
Manufacturing	141 598	5	149 151	6
Agriculture	118 900	5	92 830	4
Construction	109 242	4	110 290	5
Financial services and pension funds	102 110	4	89 653	4
Insurance	64 096	2	52 477	2
Real estate	43 264	2	40 704	2
Transport	26 866	1	21 899	1
Communication	2 735	-	15 252	-
Leasing	781	-	2 710	-
Other	148 547	6	122 394	5
Total customer accounts	2 637 532	100	2 421 051	100

Refer to Note 20 for the disclosure of the fair value and fair value hierarchy for customer accounts. The information on related party transactions is disclosed in Note 21.

10 Bonds Issued

<i>In millions of Russian Roubles</i>	31 March 2019 (unaudited)	31 December 2018
Bonds issued on domestic market	143 617	142 609
Total bonds issued	143 617	142 609

10 Bonds Issued (Continued)

As at 31 March 2019, bonds issued consist of Russian Roubles denominated bonds issued on domestic market.

Currency of denomination	Nominal value, in million of currency, in circulation	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment
Bonds issued on domestic market						
Russian Roubles	2 173	26 November 2009	14 November 2019	-	7.00%	6 months
Russian Roubles	2 402	26 November 2009	14 November 2019	-	7.00%	6 months
Russian Roubles	572	11 February 2010	29 January 2020	-	8.30%	6 months
Russian Roubles	581	11 February 2010	30 January 2020	-	8.30%	6 months
Russian Roubles	3 482	12 July 2011	29 June 2021	4 July 2019	7.80%	6 months
Russian Roubles	1 058	14 July 2011	1 July 2021	8 July 2019	7.80%	6 months
Russian Roubles	1 459	15 July 2011	2 July 2021	9 July 2019	7.80%	6 months
Russian Roubles	4 117	8 November 2011	26 October 2021	30 April 2020	8.00%	6 months
Russian Roubles	481	16 April 2012	4 April 2022	10 April 2019	6.60%	6 months
Russian Roubles	43	23 October 2012	11 October 2022	15 October 2020	8.20%	6 months
Russian Roubles	5 000	25 October 2012	13 October 2022	22 April 2019	9.35%	6 months
Russian Roubles	562	23 April 2013	11 April 2023	18 April 2019	6.60%	6 months
Russian Roubles	1 484	30 July 2013	18 July 2023	21 January 2021	7.40%	6 months
Russian Roubles	21	30 September 2013	18 September 2023	25 March 2020	8.30%	6 months
Russian Roubles	2 749	22 November 2013	10 November 2023	16 November 2021	8.85%	6 months
Russian Roubles	5 000	10 October 2014	27 September 2024	8 October 2019	11.10%	3 months
Russian Roubles	4 985	13 October 2014	30 September 2024	9 October 2019	11.10%	3 months
Russian Roubles	661	26 December 2014	13 December 2024	22 December 2020	8.60%	3 months
Russian Roubles	10 000	11 February 2015	29 January 2025	7 February 2020	15.00%	3 months
Russian Roubles	902	26 February 2015	13 February 2025	26 August 2019	8.30%	3 months
Russian Roubles	2 820	30 October 2015	17 October 2025	28 April 2020	7.95%	3 months
Russian Roubles	9 960	31 March 2017	25 September 2020	-	9.50%	3 months
Russian Roubles	9 971	26 June 2017	21 June 2021	-	8.65%	6 months
Russian Roubles	7 000	3 October 2017	28 September 2021	-	8.40%	6 months
Russian Roubles	4 975	5 December 2017	9 December 2020	-	8.10%	6 months
Russian Roubles	25 000	14 March 2018	9 March 2022	-	7.40%	6 months
Russian Roubles	13 000	19 October 2018	14 October 2022	-	9.00%	6 months
Russian Roubles	19 900	29 November 2018	22 November 2038	-	10.50%	6 months

As at 31 December 2018, bonds issued consist of Russian Roubles denominated bonds issued on domestic market.

Currency of denomination	Nominal value, in million of currency, in circulation	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment
Bonds issued on domestic market						
Russian Roubles	2 173	26 November 2009	14 November 2019	-	7.00%	6 months
Russian Roubles	2 402	26 November 2009	14 November 2019	-	7.00%	6 months
Russian Roubles	572	11 February 2010	29 January 2020	-	8.30%	6 months
Russian Roubles	581	11 February 2010	30 January 2020	-	8.30%	6 months
Russian Roubles	3 482	12 July 2011	29 June 2021	4 July 2019	7.80%	6 months
Russian Roubles	1 058	14 July 2011	1 July 2021	8 July 2019	7.80%	6 months
Russian Roubles	1 459	15 July 2011	2 July 2021	9 July 2019	7.80%	6 months
Russian Roubles	4 117	8 November 2011	26 October 2021	30 April 2020	8.00%	6 months
Russian Roubles	481	16 April 2012	4 April 2022	10 April 2019	6.60%	6 months
Russian Roubles	74	23 October 2012	11 October 2022	15 October 2020	8.20%	6 months
Russian Roubles	5 000	25 October 2012	13 October 2022	22 April 2019	9.35%	6 months
Russian Roubles	562	23 April 2013	11 April 2023	18 April 2019	6.60%	6 months
Russian Roubles	1 484	30 July 2013	18 July 2023	21 January 2021	7.40%	6 months
Russian Roubles	26	30 September 2013	18 September 2023	27 March 2019	6.60%	6 months
Russian Roubles	2 770	22 November 2013	10 November 2023	16 November 2021	8.85%	6 months
Russian Roubles	5 000	10 October 2014	27 September 2024	8 October 2019	11.10%	3 months
Russian Roubles	4 985	13 October 2014	30 September 2024	9 October 2019	11.10%	3 months
Russian Roubles	661	26 December 2014	13 December 2024	22 December 2020	8.60%	3 months
Russian Roubles	10 000	11 February 2015	29 January 2025	7 February 2020	15.00%	3 months
Russian Roubles	902	26 February 2015	13 February 2025	26 August 2019	8.30%	3 months
Russian Roubles	2 820	30 October 2015	17 October 2025	28 April 2020	7.95%	3 months
Russian Roubles	10 000	31 March 2017	25 September 2020	-	9.50%	3 months
Russian Roubles	10 000	26 June 2017	21 June 2021	-	8.65%	6 months
Russian Roubles	7 000	3 October 2017	28 September 2021	-	8.40%	6 months
Russian Roubles	5 000	5 December 2017	9 December 2020	-	8.10%	6 months
Russian Roubles	25 000	14 March 2018	9 March 2022	-	7.40%	6 months
Russian Roubles	13 000	19 October 2018	14 October 2022	-	9.00%	6 months
Russian Roubles	19 900	29 November 2018	22 November 2038	-	10.50%	6 months

Refer to Note 20 for the disclosure of the fair value and fair value hierarchy for bonds issued.

11 Perpetual Bonds

As at 31 March 2019, the Group's perpetual bonds in circulation equal to RR 38 139 million (as at 31 December 2018: RR 38 376 million).

In January 2019, the Group paid the amount due under perpetual bonds in the total amount of RR 723 million including coupon accrued in 2019 in the amount of RR 50 million for the coupon period ended in January 2019 (in January 2018, the Group paid the amount due under perpetual bonds in the total amount of RR 723 million including coupon accrued in 2018 in the amount of RR 54 million for the coupon period ended in January 2018).

As at 31 March 2019, the Group accrued amounts due under perpetual bonds in the amount of RR 349 million (as at 31 March 2018, the Group accrued amounts due under perpetual bonds in the amount of RR 347 million).

12 Interest Income and Expense

<i>(Unaudited)</i> In millions of Russian Roubles	For the three months ended 31 March	
	2019	2018
Interest income on debt financial assets carried at amortised cost		
Loans and advances to legal entities	34 513	33 119
Loans and advances to individuals	12 695	12 363
Cash equivalents	2 013	5 057
Due from other banks	1 125	381
Investment securities at amortised cost including pledged under repurchase agreements	928	1 195
	51 274	52 115
Interest income on debt financial assets carried at fair value through other comprehensive income		
Investment securities at FVOCI including pledged under repurchase agreements	8 379	5 892
	8 379	5 892
Total interest income at effective interest rate	59 653	58 007
Trading securities	818	300
Loans to customers at fair value through profit or loss	430	476
Investment securities at fair value through profit or loss	33	33
Total other interest income	1 281	809
Interest expense at effective interest rate		
Term deposits of legal entities	(19 449)	(18 110)
Term deposits of individuals	(14 530)	(13 292)
Bonds issued	(3 270)	(5 734)
Subordinated debts	(2 449)	(1 798)
Current/settlement accounts	(1 679)	(993)
Term deposits of the Bank of Russia	(1 017)	(344)
Promissory notes issued	(802)	(598)
Term deposits of other banks	(773)	(500)
Lease liabilities	(261)	-
Total interest expense at effective interest rate	(44 230)	(41 369)
Net interest income	16 704	17 447

The information on related party transactions is disclosed in Note 21.

13 Credit Loss Expense

The table below shows the ECL charges on financial instruments recorded in the income statement for the three months ended 31 March 2019:

<i>(Unaudited)</i>					
<i>In millions of Russian Roubles</i>					
	Note	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents		(5)	-	-	(5)
Due from other banks		(107)	-	1	(106)
Loans to customers at amortised cost	6	(13 535)	13 401	9 099	8 965
Debt securities measured at amortised cost		86	-	-	86
Debt securities measured at FVOCI		(375)	(39)	-	(414)
Other financial assets		-	-	336	336
Credit related commitments		(45)	(2)	-	(47)
Total credit loss expense		(13 981)	13 360	9 436	8 815

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

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

14 Fee and Commission Income and Expense

<i>(Unaudited)</i>	For the three months ended 31 March	
	2019	2018
<i>In millions of Russian Roubles</i>		
Fee and commission income		
Commission on cash and settlements transactions	2 387	2 372
Fees for sale of insurance contracts	1 130	1 364
Commission on banking cards	895	700
Commission on guarantees issued	403	558
Fees for currency control	69	56
Commission received from the Deposit Insurance Agency	32	110
Other	339	474
Total fee and commission income	5 255	5 634
Fee and commission expense		
Commission on settlement transactions	(441)	(531)
Commission on cash collection	(72)	(90)
Other	(48)	(334)
Total fee and commission expense	(561)	(955)
Net fee and commission income	4 694	4 679

15 Gains less Losses from Non-banking Activities

<i>(Unaudited)</i> <i>In millions of Russian Roubles</i>	For the three months ended 31 March	
	2019	2018
Sales of goods	1 373	870
Including:		
- sugar	338	384
- feed	158	219
- meat and dairy products	128	109
- grain (including storage and processing)	32	20
- other goods and services	717	138
Cost of goods sold	(1 111)	(962)
(Provision)/recovery of provision for impairment for trade receivables, prepayments and other financial assets	(79)	215
Net income from insurance operations	692	159
Other non-banking income	316	934
Other non-banking expenses	(706)	(344)
Total gains less losses from non-banking activities	485	872

Net income from insurance operations is as follows:

<i>(Unaudited)</i> <i>In millions of Russian Roubles</i>	For the three months ended 31 March	
	2019	2018
Insurance premiums		
Premium earned	2 138	1 233
Reinsurers share in premiums earned	(553)	(382)
Net insurance premiums earned	1 585	851
Insurance benefits and claims		
Net claims incurred during the period	(679)	(893)
Acquisition costs	(198)	(150)
Reinsurers share in claims incurred during the period	(16)	351
Net insurance benefits and claims	(893)	(692)
Net income from insurance operations	692	159

16 Significant Risk Concentrations

As at 31 March 2019, correspondent accounts and deposits with other banks with original maturities less than one month within cash and cash equivalents included balances with one non-OECD banking group with rating of the parent bank at A- (S&P), individually above 10% of the Group's equity, in the amount of RR 31 401 million, or 6% of total cash and cash equivalents (31 December 2018: correspondent accounts and deposits with other banks with original maturities less than one month within cash and cash equivalents included balances with two Russian banking groups with rating of the parent bank at Ba2 (Moody's), individually above 10% of the Group's equity, in the amount of RR 134 304 million, or 34% of total cash and cash equivalents).

As at 31 March 2019, cash and cash equivalents included the balances with the Bank of Russia in the total amount of RR 347 883 million, or 65% of total cash and cash equivalents (31 December 2018: RR 86 289 million, or 22% of total cash and cash equivalents).

As at 31 March 2019, due from other banks included the balances with one Russian banking group with rating of the parent bank at BBB- (S&P) individually above 10% of the Group's equity in the amount of RR 22 861 million, or 42% of total due from other banks (as at 31 December 2018, due from other banks included no balances with other banks individually above 10% of the Group's equity). As at 31 December 2018, due from other banks included the balances with two non-OECD banking groups with rating of the parent bank not lower than B (S&P) in aggregate above 10% of the Group's equity, in the amount of RR 20 943 million, or 54% of total due from other banks.

16 Significant Risk Concentrations (Continued)

As at 31 March 2019, due to other banks included balances with the Bank of Russia above 10% of the Group's equity in the amount of RR 48 196 million, or 32% of total due to other banks (31 December 2018: due to other banks included balances with the Bank of Russia above 10% of the Group's equity in the amount of RR 48 054 million, or 28% of total due to other banks).

As at 31 March 2019 and 31 December 2018, due to other banks included no balances, individually above 10% of the Group's equity. As at 31 March 2019, due to other banks included the balances with one OECD banking group with rating of the parent bank at A (S&P) and one Russian bank with rating at BB- (Fitch) in aggregate above 10% of the Group's equity, in the amount of RR 19 802 million, or 21% of total due to other banks (as at 31 December 2018, due to other banks included the balances with one OECD banking group with rating of the parent bank at A (S&P) and one Russian banking group with rating of the parent bank at BBB- (S&P) in aggregate above 10% of the Group's equity, in the amount of RR 25 132 million, or 15% of total due to other banks).

As at 31 March 2019, customer accounts included balances with ten customers each above 10% of the Group's equity (31 December 2018: balances with nine customers each above 10% of the Group's equity). The aggregate balance of these customers was RR 818 634 million, or 31% of total customer accounts (31 December 2018: RR 671 174 million, or 28% of total customer accounts).

17 Segment Analysis

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

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

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

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

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

17 Segment Analysis (Continued)

Segment reporting of the Group's revenue and profit/(loss) for the three months ended 31 March 2019 and for the three months ended 31 March 2018 and segment reporting of the Group's assets and liabilities at 31 March 2019 and 31 December 2018 are as follows:

<i>In millions of Russian Roubles</i>	Head office	Central federal district	Far-Eastern federal district	Volga federal district	North-West federal district	North-Caucasian federal district	Siberian federal district	Ural federal district	Southern federal district	Total
For the three months ended 31 March 2019 (unaudited)										
Revenue from external customers	19 696	14 342	1 955	7 968	4 509	2 245	3 476	1 509	7 674	63 374
- Interest income from loans and advances to customers, due from other banks and other placed funds	19 326	12 887	1 669	7 093	4 105	1 862	2 882	1 354	7 037	58 215
- Net fee and commission income from credit related operations	370	1 455	286	875	404	383	594	155	637	5 159
Gains less losses/(losses net of gains) arising from securities, derivative financial instruments and foreign currency	11 328	(6 609)	(1 373)	1 217	243	389	616	359	(2 572)	3 598
Interest expenses from due to other banks, customer accounts and bonds issued	(21 983)	(8 166)	(1 505)	(4 707)	(2 851)	(790)	(2 246)	(1 365)	(1 580)	(45 193)
(Provision)/recovery of provision for impairment	3 044	(184)	186	2 984	(618)	(2 372)	(851)	(426)	(2 046)	(283)
Administrative and maintenance expense	(8 837)	(517)	(138)	(416)	(174)	(159)	(304)	(98)	(185)	(10 828)
- Including depreciation charge	(497)	(68)	(17)	(58)	(24)	(28)	(48)	(12)	(25)	(777)
Other expenses less other income*	(4 570)	132	(206)	86	-	163	(224)	14	89	(4 516)
Current income tax expense	(598)	-	-	-	-	-	-	-	-	(598)
(Loss)/profit of reportable segments	(1 920)	(1 002)	(1 081)	7 132	1 109	(524)	467	(7)	1 380	5 554
Intersegment income/(expense)**	9 257	446	1 551	(3 603)	(729)	(1 967)	(1 738)	(247)	(2 970)	-

* Other expenses less other income include losses from disposal of loans under cession agreements.

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

17 Segment Analysis (Continued)

<i>In millions of Russian Roubles</i>	Head office	Central federal district	Far-Eastern federal district	Volga federal district	North-West federal district	North-Caucasian federal district	Siberian federal district	Ural federal district	Southern federal district	Total
For the three months ended 31 March 2018 (unaudited)										
Revenue from external customers	15 838	16 240	1 824	9 625	4 135	2 363	3 953	1 935	7 364	63 277
- Interest income from loans and advances to customers, due from other banks and other placed funds	15 314	14 763	1 580	8 573	3 719	1 997	3 354	1 758	6 813	57 871
- Net fee and commission income from credit related operations	524	1 477	244	1 052	416	366	599	177	551	5 406
Gains less losses/(losses net of gains) arising from securities, derivative financial instruments and foreign currency	4 037	(314)	(37)	67	(147)	43	142	111	426	4 328
Interest expenses from due to other banks, customer accounts and bonds issued	(22 029)	(6 461)	(1 329)	(4 153)	(2 464)	(724)	(2 276)	(1 176)	(1 436)	(42 048)
Recovery of provision/(provision) for impairment*	(229)	(2 440)	155	(936)	1 226	(162)	(37)	11	1 648	(764)
Administrative and maintenance expense	(8 724)	(517)	(148)	(436)	(173)	(184)	(309)	(100)	(178)	(10 769)
- Including depreciation charge	(302)	(63)	(15)	(54)	(23)	(29)	(45)	(11)	(22)	(564)
Other expenses less other income*	(993)	(5 716)	(297)	(805)	(1 119)	(1 813)	(301)	(139)	(1 927)	(13 110)
Current income tax expense	(380)	-	-	-	-	-	-	-	-	(380)
(Loss)/profit of reportable segments	(12 480)	792	168	3 362	1 458	(477)	1 172	642	5 897	534
Intersegment income/(expense)**	15 710	(880)	(85)	(4 191)	(915)	(1 710)	(1 587)	(592)	(5 750)	-
Total assets										
31 March 2019 (unaudited)	2 217 090	996 554	119 836	489 589	270 379	129 763	184 823	106 932	358 656	4 873 622
31 December 2018	2 681 609	1 206 994	156 062	526 189	320 582	156 811	223 893	136 912	401 287	5 810 339
Total liabilities										
31 March 2019 (unaudited)	1 977 550	1 033 234	122 161	505 630	275 453	141 413	190 240	110 510	377 721	4 733 912
31 December 2018	2 369 171	1 206 869	156 029	525 963	320 478	156 788	223 793	136 912	401 281	5 497 284

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

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

17 Segment Analysis (Continued)

Reconciliation of profit of the reportable segments results is as follows:

<i>(Unaudited)</i>	For the three months ended 31 March	
<i>In millions of Russian Roubles</i>	2019	2018
Total profit of reportable segments (after tax)	5 554	534
Adjustments for impairment (ECL)	(3 107)	2 531
Results of non-reportable segments, including the effect of consolidation*	(7 819)	(467)
Accounting for financial instruments at fair value	644	(4 261)
Adjustment of deferred tax	3 699	(642)
Gains less losses from revaluation of other financial instruments at fair value through profit or loss	16	34
Adjustment of accrued staff costs	105	632
Adjustments of financial assets and liabilities carried at amortised cost	1 376	(2 414)
Other	85	4 929
The Group's profit under IFRS (after tax)	553	876

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

Adjustment for impairment arises mainly due to the different consolidation perimeter in the RAR and IFRS statements.

Adjustments of derivative financial instruments reflected in the line "Accounting for financial instruments at fair value" in the table above arise from the difference in the accounting treatment of currency swaps under RAR (which are the basis for management reporting) and IFRS reporting. Under RAR foreign exchange swaps are recognized as back-to-back deposits, whereas in IFRS financial statements such transactions are recognized at fair value. Refer to Note 19. Providing reconciliation, accounting for deals described above under RAR assumes also adjustments related to interest income/expense and total assets of reportable segments.

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

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

Adjustments of perpetual bonds reflected in the line "Adjustments of financial assets and liabilities carried at amortised cost" in the table above arise from the difference in the accounting treatment under RAR compared to IFRS. Perpetual bonds are recognised in equity in the consolidated statement of financial position under IFRS.

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

18 Contingencies and Commitments

Legal proceedings. From time to time in the normal course of business, claims against the Group are received. As at 31 March 2019, based on its own estimates and both internal and external professional advice the Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no material provision for cover of such losses has been made in these interim condensed consolidated financial statements (31 December 2018: Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no material provision for cover of such losses has been made in annual consolidated financial statements).

18 Contingencies and Commitments (Continued)

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

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

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

During three months ended 31 March 2019, the Group determined its tax liabilities arising from the “controlled” transactions using actual transaction prices.

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

As at 31 March 2019, the Management of the Group believes that its interpretation of the applicable legislation is reasonable and will be sustained.

Capital expenditure commitments. As at 31 March 2019, the Group has contractual capital expenditure commitments of RR 1 292 million (31 December 2018: RR1 342 million).

Compliance with covenants. The Group is subject to certain covenants primarily relating to its borrowings, including capital adequacy levels calculated on the IFRS figures in accordance with Basel II Capital Accord equals 8%. Non-compliance with such covenants may result in negative consequences for the Group including an increase of the borrowing costs and announcement of the default. As at 31 March 2019 and 31 December 2018, the level of the capital adequacy ratio of the Group under Basel II did not exceed 8%. Management of the Group analysed the consequences of non-compliance with the requirement to maintain the minimum level of the capital adequacy ratio under Basel II and concluded that there are no negative consequences, including the right of creditors to early redemption of the debt.

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

18 Contingencies and Commitments (Continued)

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

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

Outstanding credit related commitments and performance guarantees are as follows:

<i>In millions of Russian Roubles</i>	31 March 2019 (unaudited)	31 December 2018
Undrawn credit lines	84 505	95 344
Letters of credit	3 511	3 928
Less: provisions for ECL	(609)	(656)
Total credit related commitments	87 407	98 616
Performance guarantees	131 656	162 834
Less: provision	(4)	(633)
Total credit related commitments and performance guarantees	219 059	260 817

An analysis of changes in the ECLs during the three months ended 31 March 2019 are, as follows:

<i>In millions of Russian Roubles</i>	Stage 1	Stage 2	Stage 3	Total
ECLs as at 1 January 2019	654	2	-	656
Transfers to Stage 1	1	(1)	-	-
Transfers to Stage 2	(4)	4	-	-
Transfers to Stage 3	-	-	-	-
Impact on period end ECL of exposures transferred between stages during the period (including expense on new issue and income from repayments)	(42)	(5)	-	(47)
ECLs as at 31 March 2019	609	-	-	609

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

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

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

18 Contingencies and Commitments (Continued)

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

<i>In millions of Russian Roubles</i>	31 March 2019 (unaudited)	31 December 2018
Russian Roubles	206 482	250 612
Euros	3 451	3 898
US Dollars	9 126	6 307
Total credit related commitments	219 059	260 817

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

<i>In millions of Russian Roubles</i>	31 March 2019 (unaudited)	31 December 2018
Assets pledged under loan agreements with banks (including the Bank of Russia)	18 556	18 556
Repurchase agreements	-	40 264

As at 31 March 2019, mandatory cash balances with the Bank of Russia in the amount of RR 21 090 million (31 December 2018: RR 20 651 million) represent mandatory reserve deposits which are not available to finance the Group's day to day operations.

As at 31 March 2019 and 31 December 2018, assets pledged under loan agreements with banks (including the Bank of Russia) mainly include loans and advances to customers pledged to the Bank of Russia under loan agreements in accordance with the Bank of Russia Act # 4801-U *On the Forms and Conditions of Refinancing of Credit Institutions Secured by Assets* dated 22 May 2018.

19 Derivative Financial Instruments

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

As at 31 March 2019, in the aggregate amount of foreign exchange swaps with original settlement dates of more than 30 working days exists swaps structured as loans issued by the Group in Japanese yens (31 December 2018: in Japanese yens) to one large OECD bank with maturities from March 2023 to May 2023, and deposits in Russian Roubles received from the same counterparties with the same maturities ("back-to-back loans").

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

As at 31 March 2019, international credit rating of this counterparty was A (S&P) (31 December 2018: international credit rating of this counterparty was A (S&P)).

19 Derivative Financial Instruments (Continued)

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions as at 31 March 2019 and covers the contracts with settlement dates after the respective end of the reporting period:

<i>In millions of Russian Roubles</i>	Principal or agreed amount at fair value of assets receivable	Principal or agreed amount at fair value of assets payable	Positive fair value	Negative fair value
Forwards and swaps				
- Currency	146 144	(138 148)	8 255	(259)
- Precious metals	1 028	(1 016)	13	(1)
- Interest rate	2 991	(2 865)	520	(394)
- Securities	140 220	(134 919)	8 350	(3 049)
Options	23 358	(23 320)	76	(62)
Total derivative financial instruments	313 741	(300 268)	17 214	(3 765)

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

<i>In millions of Russian Roubles</i>	Principal or agreed amount at fair value of assets receivable	Principal or agreed amount at fair value of assets payable	Positive fair value	Negative fair value
Forwards and swaps				
- Currency	216 849	(213 176)	9 490	(5 817)
- Precious metals	1 515	(1 526)	6	(17)
- Interest rate	1 797	(1 795)	238	(236)
- Securities	146 384	(141 502)	7 859	(2 978)
Options	3 580	(3 581)	171	(165)
Futures				
- Index	90	(88)	3	-
Total derivative financial instruments	370 215	(361 668)	17 767	(9 213)

As at 31 March 2019 and 31 December 2018, the Group had no foreign exchange swaps with fair value individually above 10% of the Group's equity.

Refer to Note 20 for the disclosure of fair value hierarchy for derivative financial instruments. The information on related party transactions is disclosed in Note 21.

20 Fair Value of Financial Instruments

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

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

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

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

The Group determines the fair value in relation to securities that are not traded in an active market as a price of a security, which can be determined taking into account the specific conditions of the transaction, the circulation characteristics of the security and other indicators, information about which may serve as a basis for such a calculation, including the involvement of an independent appraiser to assess the fair value.

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

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

Loans at fair value through profit or loss are valued using a combination of approaches. Where appropriate, loans are valued with reference to observable prices of debt securities issued by the borrower or by comparable entities. In other cases, valuation is performed using internal models based on present value techniques or, in some circumstances (for example, in respect of cash flow from assets held as collateral), external valuation reports. The non-observable inputs to the models include adjustments for credit, market and liquidity risks associated with the expected cash flows from the borrower's operations or in respect of collateral valuation.

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

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

20 Fair Value of Financial Instruments (Continued)

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

<i>In millions of Russian Roubles</i>	31 March 2019 (unaudited)		31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets carried at amortised cost				
Cash and cash equivalents	534 632	534 632	390 585	390 585
Mandatory cash balances with the Bank of Russia	21 090	21 090	20 651	20 651
Due from other banks	54 657	56 955	38 717	41 015
Loans and advances to customers				
- Loans to corporates	1 563 670	1 560 594	1 503 878	1 515 051
- Lending for food interventions	21 424	21 424	26 446	26 446
- Loans to individuals	402 220	405 076	402 422	407 937
Investment securities				
- Corporate bonds	41 241	41 261	37 308	37 245
- Municipal and subfederal bonds	15 728	15 915	15 838	15 931
- Federal Loan bonds (OFZ)	3 545	3 395	3 537	3 350
- Corporate Eurobonds	195	195	208	208
Other financial assets	4 434	4 434	8 002	8 002
Total financial assets carried at amortised cost	2 662 836	2 664 971	2 447 592	2 466 421
Financial assets carried at fair value	514 131	514 131	577 572	577 572
Total financial assets	3 176 967	3 179 102	3 025 164	3 043 993
Financial liabilities carried at amortised cost				
Due to other banks				
- Term borrowings from other banks	35 431	37 167	83 375	84 787
- Term borrowings from the Bank of Russia	48 196	47 289	48 054	47 147
- Correspondent accounts and overnight placements of other banks	9 640	9 640	40 101	40 101
Customer accounts				
- State and public organisations	655 602	656 113	593 569	594 114
- Other legal entities	915 214	916 049	792 663	792 743
- Individuals	1 066 716	1 061 823	1 034 819	1 031 971
Promissory notes issued	41 567	41 567	42 341	42 341
Bonds issued				
- Bonds issued on domestic market	143 617	146 771	142 609	145 806
Other financial liabilities	10 979	10 979	3 669	3 669
Total financial liabilities carried at amortised cost before subordinated debts	2 926 962	2 927 398	2 781 200	2 782 679
Subordinated debts	141 690	146 458	147 279	153 774
Total financial liabilities carried at amortised cost	3 068 652	3 073 856	2 928 479	2 936 453
Financial liabilities carried at fair value	3 765	3 765	9 213	9 213
Total financial liabilities	3 072 417	3 077 621	2 937 692	2 945 666

20 Fair Value of Financial Instruments (Continued)**(b) Analysis by fair value hierarchy of financial instruments**

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

- (i) Level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities;
- (ii) Level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- (iii) Level three measurements are valuations not based on observable market data (that is, unobservable inputs).

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

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

Analysis of financial and non-financial instruments as at 31 March 2019 is as follows:

<i>(Unaudited)</i> <i>In millions of Russian Roubles</i>	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with non- observable inputs (Level 3)	Total
Assets measured at fair value				
Trading securities	18 288	1 716	-	20 004
Investment securities	395 372	52 171	2 396	449 939
Derivative financial instruments	-	17 214	-	17 214
Loans to customers at fair value through profit or loss	-	-	26 974	26 974
Office premises	-	-	28 052	28 052
Assets for which fair values are disclosed				
Cash and cash equivalents	-	534 632	-	534 632
Mandatory cash balances with the Bank of Russia	-	-	21 090	21 090
Due from other banks	-	56 955	-	56 955
Loans and advances to customers	-	-	1 987 094	1 987 094
Investment securities	51 311	9 455	-	60 766
Other financial assets	-	-	4 434	4 434
Total financial and non-financial assets	464 971	672 143	2 070 040	3 207 154
Liabilities measured at fair value				
Derivative financial instruments	-	3 765	-	3 765
Liabilities for which fair values are disclosed				
Due to other banks	-	94 096	-	94 096
Customer accounts	-	-	2 633 985	2 633 985
Promissory notes issued	-	-	41 567	41 567
Bonds issued				
- Bonds issued on domestic market	111 390	35 381	-	146 771
Other financial liabilities	-	-	10 979	10 979
Total financial liabilities before subordinated debts	111 390	133 242	2 686 531	2 931 163
Subordinated debts	37 802	108 656	-	146 458
Total financial liabilities	149 192	241 898	2 686 531	3 077 621

20 Fair Value of Financial Instruments (Continued)

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

<i>In millions of Russian Roubles</i>	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with non- observable inputs (Level 3)	Total
Assets measured at fair value				
Trading securities	17 362	1 864	-	19 226
Investment securities	470 092	43 083	2 383	515 558
Derivative financial instruments	-	17 767	-	17 767
Loans to customers at fair value through profit or loss	-	-	25 021	25 021
Office premises	-	-	28 171	28 171
Assets for which fair values are disclosed				
Cash and cash equivalents	-	390 585	-	390 585
Mandatory cash balances with the Bank of Russia	-	-	20 651	20 651
Due from other banks	-	41 015	-	41 015
Loans and advances to customers	-	-	1 949 434	1 949 434
Investment securities	48 762	7 972	-	56 734
Other financial assets	-	-	8 002	8 002
Total financial and non-financial assets	536 216	502 286	2 033 662	3 072 164
Liabilities measured at fair value				
Derivative financial instruments	-	9 213	-	9 213
Liabilities for which fair values are disclosed				
Due to other banks	-	172 035	-	172 035
Customer accounts	-	-	2 418 828	2 418 828
Promissory notes issued	-	-	42 341	42 341
Bonds issued				
- Bonds issued on domestic market	106 781	39 025	-	145 806
Other financial liabilities	-	-	3 669	3 669
Total financial liabilities before subordinated debts	106 781	220 273	2 464 838	2 791 892
Subordinated debts	28 194	125 580	-	153 774
Total financial liabilities	134 975	345 853	2 464 838	2 945 666

20 Fair Value of Financial Instruments (Continued)

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

<i>In millions of Russian Roubles</i>	At 31 December 2018	Total gain/(loss) recorded in profit or loss	New assets recognised	Assets derecognised	At 31 March 2019 (unaudited)
Financial assets					
Loans to customers at fair value through profit or loss	25 021	(436)	3 077	(688)	26 974
Investment securities at fair value through profit or loss	2 383	-	13	-	2 396
Total level 3 financial assets	27 404	(436)	3 090	(688)	29 370

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

<i>(Unaudited)</i> <i>In millions of Russian Roubles</i>	For the three months ended 31 March 2019		
	Realised gains/ (losses)	Unrealised gains/ (losses)	Total
Total losses included in the profit or loss for the period*	429	(865)	(436)

* Losses are recorded for Interest income and (Losses net of gains)/gains less losses from financial instruments and loans to customers at fair value through profit or loss.

Loans at fair value through profit or loss

The Group determines the fair value of loans based on discounted cash flow models taking into account the borrower's credit risk. The models use a number of unobservable input market data, the main ones being the discount rate and credit spread.

If the discount rate used by the Group in the model increases/decreases by 1%, the book value of loans will decrease by RR 583 million / increase by RR 609 million. The discount rates used are in range from 8.72% to 34.13%.

Investment securities at fair value through profit or loss

Investment securities at fair value through profit or loss include unquoted equity securities at fair value through an independent appraiser. The estimation was based on the income approach using the discounted dividend method, which includes the forecast and post-forecast period of activity. Forecasting was based on the analysis of the structure of financial investments, the company's strategy for working with clients, assumptions on the forecast of changes in the future of reserves, income from investing funds, the company's own funds. When calculating the total market value of securities, a discount for lack of liquidity was applied expertly.

The table below reflects transfers of financial instruments measured at fair value between Level 1 and Level 2 of the fair value hierarchy during three months ended 31 March 2019:

<i>(Unaudited)</i> <i>In millions of Russian Roubles</i>	Transfers between Level 1 and Level 2	
	From Level 1 to Level 2	From Level 2 to Level 1
Financial assets		
Trading securities	-	532
Investment securities at fair value through other comprehensive income	4 835	4 287
Total transfers of financial assets	4 835	4 819

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

<i>In millions of Russian Roubles</i>	Transfers between Level 1 and Level 2	
	From Level 1 to Level 2	From Level 2 to Level 1
Financial assets		
Investment securities at fair value through other comprehensive income	-	3 168
Total transfers of financial assets	-	3 168

20 Fair Value of Financial Instruments (Continued)

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

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

There were no other transfers between levels of the fair value hierarchy during three months ended 31 March 2019 and during the year ended 31 December 2018.

The following table shows the quantitative information as at 31 March 2019 about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

Assets	Fair value, in millions of Russian Roubles	Valuation technique	Inputs used		
			Input	Min	Max
Office premises (based on valuation at 31 December 2018, fair value of new objects acquired in 2019 equals to current value)	28 052	Comparative method	Trade discount	6.0%	21.0%

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

Assets	Fair value, in millions of Russian Roubles	Valuation technique	Inputs used		
			Input	Min	Max
Office premises (based on valuation at 31 December 2018)	28 171	Comparative method	Trade discount	6.0%	21.0%

21 Related Party Transactions

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

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

21 Related Party Transactions (Continued)

The outstanding balances with related parties were as follows:

<i>In millions of Russian Roubles</i>	31 March 2019 (unaudited)	31 December 2018
Cash and cash equivalents		
Bank of Russia	347 883	86 289
Other banks	8 374	148 301
Loans and advances to customers		
Loans and advances to customers (before impairment)	240 607	229 223
Key management and their family members	13	6
Less: allowance for impairment	(9 024)	(10 833)
Derivative financial instruments — assets	9 387	9 405
Securities		
Securities issued by Russian Federation	239 985	212 179
Securities of entities and banks	194 473	272 115
Less: allowance for impairment	(209)	(300)
Due from other banks	32 049	10 520
Other assets		
State Corporation Deposit Insurance Agency	170	826
Accrued subsidies under the government programs to subsidize lending	-	3
Customer accounts		
Entities	956 010	800 158
Key management and their family members	3 536	3 209
Due to other banks		
Bank of Russia	48 196	48 054
Other banks	13 385	93 743
Derivative financial instruments — liabilities	424	2 039
Subordinated debts	76 086	80 694
Other liabilities		
Payables on share capital	15 000	-
Credit related commitments		
Undrawn credit lines	5 155	1 182
Performance guarantees	7 147	8 808
Less: provision for impairment	(31)	(34)
Financial guarantees received	28 298	27 885

21 Related Party Transactions (Continued)

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

<i>(Unaudited)</i> In millions of Russian Roubles	For the three months ended 31 March	
	2019	2018
Interest income on cash and cash equivalents		
Bank of Russia	1 419	4 511
Other banks	354	260
Interest income on due from other banks	664	38
Interest income on loans and advances to customers	3 858	3 126
Interest income on securities		
Securities issued by Russian Federation	5 622	3 549
Securities of entities and banks	4 406	2 849
Gains less losses from securities		
Securities issued by Russian Federation	(202)	1 288
Securities of entities and banks	(137)	40
Fee and commission income		
Commission received from the Deposit Insurance Agency	32	110
Gains less losses/(losses net of gains) from derivative financial instruments	6 702	(249)
Interest expense on customer accounts		
Entities	(13 584)	(12 447)
Key management and their family members	(39)	(18)
Interest expense on subordinated debts	(1 232)	(931)
Interest expense on due to other banks		
Bank of Russia	(1 013)	(344)
Other banks	(205)	(118)
Administrative and other operating expenses		
Payments to the Deposit Insurance Fund	(1 836)	(999)

During three months ended 31 March 2019, transactions with the shareholder included taxes paid, subsidies received under the government programs to subsidize lending and contribution to share capital.

Key management of the Group represents members of the Supervisory Board, the Management Board and Chief Accountant of the Bank. For the three months ended 31 March 2019 total remuneration of the key management amounted to RR 104 million (for the three months ended 31 March 2018: RR 75 million). Total remuneration of the key management includes salaries, discretionary bonuses and other short-term benefits.

22 Disposal of Subsidiaries

In March 2019, the Group ceased the control over LLC Tambov Sugar Company and LLC Tambovsakharinvest (hereinafter, "TSK Group"). No potential rights in LLC Tambov Sugar Company exist as at 31 March 2019.

As a result of disposal, the Group recognized a loss of RR 159 million as part of other operating expenses.

The table below shows the assets and liabilities of the TSC Group at the date of disposal:

<i>(Unaudited)</i> <i>In millions of Russian Roubles</i>	Cost at the time of disposal
Assets	
Property and equipment	8 501
Other assets	22
	8 523
Liabilities	
Deferred tax liability	1 230
Other liabilities	83
	1 313
Net assets	7 210
Non-controlling interests	(1 803)
Total net assets derecognised	5 407

23 Events after the End of the Reporting Period

In April 2019, the Group paid the amount due under perpetual bonds in the total amount of RR 1 028 million.

In April 2019, the Group repurchased bonds denominated in RR issued on the domestic market in the amount of RR 5 199 million at the put option date.

In April 2019, the Group issued on the domestic market RR 10 000 million bonds maturing in April 2020 with semi-annual payments for the two semi-annual interest period at 8.35% p.a.

In April 2019, share capital of the Bank was increased by RR 15 000 million due to the additional issue of ordinary shares.