AO UniCredit Bank

Condensed Interim Consolidated
Financial Statements
for the Nine-Month Period Ended
30 September 2018
(unaudited)

AO UniCredit Bank

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Statement of Management's Responsibilities for the Preparation and Approval of the Condensed Interim Consolidated Financial Statements for the Nine-Month Period Ended 30 September 2018

Management of AO UniCredit Bank is responsible for the preparation of the condensed interim consolidated financial statements that present fairly the financial position of AO UniCredit Bank, its subsidiary and associate (collectively – the "Group") as at 30 September 2018, and the related condensed interim consolidated statements of comprehensive income, changes in equity and cash flows for the three and nine-month periods then ended and a summary of significant accounting policies and selected notes to the condensed interim consolidated financial statements (the "condensed interim consolidated financial statements") in compliance with International Accounting Standard ("IAS") 34 Interim Financial Reporting ("IAS 34").

In preparing the condensed interim consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IAS 34 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, and which enable them to ensure that the consolidated interim condensed financial statements of the Group comply with IAS 34;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The condensed interim consolidated financial statements for the three and nine-month periods ended 30 September 2018 were approved by the Board of Management of AO UniCredit Bank on 6 November 2018.

M. Alekseev
Chairman of the Board of Management

T. Soll
Deputy Deputy Chief Accountant

6 November 2018
Moscow

AO Deloitte & Touche CIS
5 Lesnaya Street
Moscow, 125047,
Russia

Tel: +7 (495) 787 06 00
Fax: +7 (495) 787 06 01
deloitte.ru

REPORT ON REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

To: the Shareholder and the Supervisory Board of AO UniCredit Bank

Introduction

We have reviewed the accompanying condensed interim consolidated statement of financial position of AO UniCredit Bank and its subsidiary and associate (collectively – the "Group") as at 30 September 2018 and the related condensed interim consolidated statements of comprehensive income, changes in equity and cash flows for the three and nine-month period then ended, and a summary of significant accounting policies and selected explanatory notes. Management is responsible for the preparation and presentation of these condensed interim consolidated financial statements in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of condensed interim consolidated financial statements 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 condensed interim consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting.*

Sergei Neklyudov
Engagement partner

Deloitte & Touche

7 November 2018

The Entity: AO UniCredit Bank

Licensed by the Central Bank of the Russian Federation on 22.12.2014, License No.1.

Primary State Registration Number: 1027739082106

Certificate of registration in the Unified State Register series 77 № 007773325 of 19.08.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation №39.

Address:
9, Prechistenskaya emb., Moscow, Russia 119034.

Audit Firm: AO "Deloitte & Touche CIS"

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulated organization of auditors "Russian Union of auditors" (Association), ORNZ 11603080484

AO UniCredit Bank

Condensed Interim Consolidated Statement of Financial Position as at 30 September 2018
(in thousands of Russian Rubles)

	Notes	30 September 2018 (unaudited)	31 December 2017
ASSETS			
Cash and cash balances	5	17 402 516	30 202 650
Debt securities held for trading	6		
- held by the Group		14 315 325	20 064 838
- pledged under repurchase agreements		-	804 699
Derivative financial assets	8	30 859 287	37 985 906
Derivative financial assets designated for hedging	8	6 483 607	7 860 608
Changes in fair value of portfolio hedged items		(2 322 966)	2 661 127
Financial assets at amortized cost			
Amounts due from credit institutions	7	296 512 090	292 420 614
Loans to customers	9	743 129 754	668 523 180
Debt securities	10	-	29 937 423
Financial assets at fair value through other comprehensive income	10		
- held by the Group		77 992 328	76 211 952
- pledged under repurchase agreements		3 525 548	1 254 314
Investments in associate	11	6 725 960	-
Fixed assets		5 589 768	4 909 170
Intangible assets		7 151 034	7 452 804
Deferred income tax assets		1 681 283	-
Current income tax assets		657 201	-
Other assets		7 080 095	5 852 338
TOTAL ASSETS		**1 216 782 830**	**1 186 141 623**
LIABILITIES			
Amounts due to credit institutions	13	92 677 908	85 426 996
Amounts due to customers	14	878 088 421	827 103 325
Debt securities issued	15	2 423 542	6 509 793
Financial liabilities held for trading	7	2 674 144	26 399 813
Derivative financial liabilities	8	20 566 031	15 658 296
Derivative financial liabilities designated for hedging	8	15 696 379	10 649 841
Changes in fair value of portfolio hedged items		(2 211 139)	(1 140 107)
Deferred income tax liabilities		6 581	4 497 677
Current income tax liabilities		-	152 459
Other liabilities		14 252 785	10 650 121
TOTAL LIABILITIES		**1 024 174 652**	**985 908 214**
EQUITY			
Share capital		41 787 806	41 787 806
Share premium		437 281	437 281
Cash flow hedge reserve		886 144	(268 860)
Revaluation reserve for financial assets at fair value through other comprehensive income		(1 742 203)	226 583
Foreign currency translation reserve		(34 032)	-
Retained earnings		151 273 182	158 050 599
TOTAL EQUITY		**192 608 178**	**200 233 409**
TOTAL LIABILITIES AND EQUITY		**1 216 782 830**	**1 186 141 623**

M. Alekseev
Chairman of the Board of Management

T. Soll
Deputy Chief Accountant

6 November 2018
Moscow

The accompanying selected notes on pages 8 to 38 are an integral part of these condensed interim consolidated financial statements.

AO UniCredit Bank

Condensed Interim Consolidated Statement of Comprehensive Income for the Three and Nine-Month Periods Ended 30 September 2018
(in thousands of Russian Rubles)

	Notes	Three-month period ended 30 September 2018 (unaudited)	Three-month period ended 30 September 2017 (unaudited)	Nine-month period ended 30 September 2018 (unaudited)	Nine-month period ended 30 September 2017 (unaudited)
Interest income and similar revenues		27 285 795	26 681 152	79 957 094	79 073 964
Interest expense and similar charges		(17 323 482)	(16 343 767)	(49 390 947)	(48 836 434)
Net interest income		**9 962 313**	**10 337 385**	**30 566 147**	**30 237 530**
Fee and commission income		2 891 667	2 593 163	8 601 571	7 340 583
Fee and commission expense		(699 540)	(801 733)	(2 117 139)	(2 168 376)
Net fee and commission income		**2 192 127**	**1 791 430**	**6 484 432**	**5 172 207**
Dividend income		4 985	-	4 987	2
(Losses)/gains on financial assets and liabilities held for trading		(1 373 041)	787 209	(1 838 810)	2 042 501
Fair value adjustments in portfolio hedge accounting		722	(122 550)	96 828	(108 918)
Gains/(losses) on disposal of:					
- financial assets at amortized cost		254 239	141 675	500 748	298 060
- financial assets at fair value through other comprehensive income		(230)	456 021	1 503 924	1 125 242
OPERATING INCOME		**11 041 115**	**13 391 170**	**37 318 256**	**38 766 624**
(Impairment)/recovery of impairment on:					
- financial assets at fair value through other comprehensive income		35 141	-	(51 974)	-
- financial assets at amortized costs	7,9	(2 478 616)	(3 024 411)	(10 166 751)	(6 078 794)
- other financial transactions	16	209 467	25 342	1 758 332	(1 097 943)
NET INCOME FROM FINANCIAL ACTIVITIES		**8 807 107**	**10 392 101**	**28 857 863**	**31 589 887**
Personnel expenses		(2 388 803)	(2 234 105)	(7 148 416)	(6 621 791)
Other administrative expenses		(1 813 777)	(1 696 319)	(5 197 920)	(4 823 216)
Depreciation of fixed assets		(170 017)	(152 268)	(557 702)	(442 056)
Impairment of fixed assets		-	(26 230)	-	(93 674)
Amortization of intangible assets		(423 025)	(347 011)	(1 111 028)	(905 459)
Other provisions		(13 606)	(2 749)	7 254	27 310
Other operating expenses		(67 348)	(42 755)	(114 687)	(113 909)
Operating costs		**(4 876 576)**	**(4 501 437)**	**(14 122 499)**	**(12 972 795)**
Share of gains of associate	11	284 201	-	730 981	-
Gains/(losses) on disposal of fixed assets		3 090	31	3 460	1 020
PROFIT BEFORE INCOME TAX EXPENSE		**4 217 822**	**5 890 695**	**15 469 805**	**18 618 112**
Income tax expense	12	(831 544)	(1 202 196)	(3 074 237)	(3 838 340)
PROFIT FOR THE PERIOD		**3 386 278**	**4 688 499**	**12 395 568**	**14 779 772**
OTHER COMPREHENSIVE INCOME/(LOSS)					
Items that may be reclassified subsequently to profit or loss					
Cash flow hedge reserve – effective portion of changes in fair value, net of tax:					
- fair value changes		457 999	103 870	1 144 221	(573 047)
- reclassification adjustment relating to financial assets and liabilities designated for hedging disposed of in the period		(4 370)	(4 076)	10 783	5 631
Revaluation reserve for financial assets at fair value through other comprehensive income , net of tax:					
- fair value changes		(792 439)	(90 007)	(2 002 328)	451 186
- reclassification adjustment relating to financial assets at fair value through other comprehensive income disposed of in the period		(2)	300 418	(1 056 311)	85 110
Foreign currency translation reserve		(10 176)	-	(34 032)	-
Other comprehensive (loss)/income for the period, net of tax	12	**(348 988)**	**310 205**	**(1 937 667)**	**(31 120)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**3 037 290**	**4 998 704**	**10 457 901**	**14 748 652**

M. Alekseev
Chairman of the Board of Management

6 November 2018
Moscow

T. Soll
Deputy Chief Accountant

The accompanying selected notes on pages 8 to 38 are an integral part of these condensed interim consolidated financial statements.

AO UniCredit Bank

Condensed Interim Consolidated Statement of Changes in Equity for the Nine-Month Period Ended 30 September 2018

(expressed in thousands of Russian Rubles)

	Share capital	Share premium	Cash flow hedge reserve	Revaluation reserve for financial assets at fair value through other comprehen-sive income	Foreign currency translation reserve	Retained earnings	Total equity
1 January 2017	**41 787 806**	**437 281**	**15 759**	**(559 841)**	**-**	**139 993 900**	**181 674 905**
Total comprehensive income							
Profit for the period (unaudited)	-	-	-	-	-	14 779 772	14 779 772
Other comprehensive income							
Change in cash flow hedge reserve, net of tax (unaudited)	-	-	(567 416)	-	-	-	(567 416)
Change in revaluation reserve for available-for-sale securities, net of tax (unaudited)	-	-	-	536 296	-	-	536 296
Total other comprehensive income/(loss) (unaudited)	**-**	**-**	**(567 416)**	**536 296**	**-**	**-**	**(31 120)**
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD (unaudited)	**-**	**-**	**(567 416)**	**536 296**	-	**14 779 772**	**14 748 652**
30 September 2017 (unaudited)	**41 787 806**	**437 281**	**(551 657)**	**(23 545)**	**-**	**154 773 672**	**196 423 557**
31 December 2017	**41 787 806**	**437 281**	**(268 860)**	**226 583**	**-**	**158 050 599**	**200 233 409**
Effect of change in accounting policy due to IFRS 9 adoption (Note 3)	-	-	-	1 089 853	-	(12 313 369)	(11 223 516)
1 January 2018	**41 787 806**	**437 281**	**(268 860)**	**1 316 436**	**-**	**145 737 230**	**189 009 893**
Total comprehensive income							
Profit for the period (unaudited)	-	-	-	-	-	12 395 568	12 395 568
Other comprehensive income							
Change in cash flow hedge reserve, net of tax (unaudited)	-	-	1 155 004	-	-	-	1 155 004
Change in revaluation reserve financial assets at fair value through other comprehensive income, net of tax (unaudited)	-	-	-	(3 058 639)	-	-	(3 058 639)
Change in foreign currency translation reserve (unaudited)	-	-	-	-	(34 032)	-	(34 032)
Total other comprehensive income/(loss) (unaudited)	**-**	**-**	**1 155 004**	**(3 058 639)**	**(34 032)**	**-**	**(1 937 667)**
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD (unaudited)	**-**	**-**	**1 155 004**	**(3 058 639)**	**(34 032)**	**12 395 568**	**10 457 901**
Transactions with owner, directly recorded in equity							
Dividends paid on ordinary shares (unaudited)	-	-	-	-	-	(6 861 533)	(6 861 533)
Total transactions with owner	**-**	**-**	**-**	**-**	**-**	**(6 861 533)**	**(6 861 533)**
Gain on disposal of equity investments at fair value through other comprehensive income (unaudited)	-	-	-	-	-	1 917	1 917
30 September 2018 (unaudited)	**41 787 806**	**437 281**	**886 144**	**(1 742 203)**	**(34 032)**	**151 273 182**	**192 608 178**

M. Alekseev
Chairman of the Board of Management

T. Soll
Deputy Chief Accountant

6 November 2018
Moscow

The accompanying selected notes on pages 8 to 38 are an integral part of these condensed interim consolidated financial statements.

Condensed Interim Consolidated Statement of Cash Flows for the Nine-Month Period Ended 30 September 2018

(expressed in thousands of Russian Rubles)

	Note	Nine-month period ended 30 September 2018 (unaudited)	Nine-month period ended 30 September 2017 (unaudited)
Cash flows from operating activities before changes in operating assets and liabilities		**20 744 528**	**24 276 670**
Net cash used in operating activities before income tax		**(13 093 307)**	**(9 165 958)**
Corporate income tax paid		(6 774 703)	(6 471 297)
Net cash flows used in operating activities		**(19 868 010)**	**(15 637 255)**
Cash flows from investing activities			
Purchase of associate	11	(6 033 031)	-
Dividends received		4 987	2
Purchase of financial assets at fair value through other comprehensive income		(271 891 595)	(24 013 516)
Proceeds from redemption and sale of financial assets at fair value through other comprehensive income		298 220 495	44 117 816
Proceeds from sale of fixed and intangible assets		24 181	1 912
Purchase of fixed and intangible assets		(1 856 501)	(1 628 219)
Net cash flows from investing activities		**18 468 536**	**18 477 995**
Cash flows from financing activities			
Redemption of bonds issued	15	(4 000 000)	-
Dividends paid on ordinary shares		(6 861 533)	-
Net cash flows used in financing activities		**(10 861 533)**	**-**
Effect of exchange rates changes on cash and cash balances		(539 127)	121 409
Net (decrease)/increase in cash and cash balances		**(12 800 134)**	**2 962 149**
Cash and cash balances, beginning	**5**	**30 202 650**	**58 588 565**
Cash and cash balances, ending	**5**	**17 402 516**	**61 550 714**

M. Alekseev
Chairman of the Board of Management

T. Soll
Deputy Chief Accountant

6 November 2018
Moscow

The accompanying selected notes on pages 8 to 38 are an integral part of these condensed interim consolidated financial statements.

1. Principal activities

These condensed interim consolidated financial statements include the financial statements of AO UniCredit Bank (hereinafter – the "Bank"), its subsidiary and associate. AO UniCredit Bank, its subsidiary and associate are hereinafter collectively referred to as the "Group".

The Bank (the former International Moscow Bank) was established in 1989 as a closed joint-stock company under the laws of the Russian Federation. The Bank operates under General Banking License issued by the Central Bank of Russia (hereinafter – the "CBR") for banking operations for No. 1, as well as the license of the CBR for operations with precious metals for No. 1, both issued on 22 December 2014. The Bank also possesses licenses of the professional securities market participant for dealing, brokerage and depository activities issued by the Federal Securities Commission on 25 April 2003, as well as authorized to speak to the customs authorities as a guarantor. The Bank is a member of the state deposit insurance system in the Russian Federation.

As at 1 March 2018, as a result of the transaction between the Group and its sole shareholder UniCredit S.p.A., the Group acquired 40% of capital in BARN B.V. (the Netherlands), that is the sole shareholder of AO "RN Bank" (Russian Federation) since 2013. The remaining 60% in the authorized capital of BARN B.V. belongs to RN SF Holding B.V. (the Netherlands), which is a joint venture with equal participation (50%-50%) of RSI Bank S.A. and Nissan Motor Co., Ltd (see Note 11 for details).

As at 30 September 2018 the Group comprises the Bank, the leading operating entity of the Group, LLC UniCredit Leasing, a leasing company as its subsidiary, and holding company BARN B.V. as its associate. LLC UniCredit Leasing owns 100% of the shares in AO Locat Leasing Russia. Both companies operate in the financial leasing industry on the local market. BARN B.V. is the holding company based in the Netherlands. As at 30 September 2018 the sole shareholder of the Group is UniCredit S.p.A.

As at 30 September 2018 the Bank had 13 branches and 10 representative offices throughout the Russian Federation and one representative office in the Republic of Belarus (31 December 2017: 13 branches and 11 representative offices throughout the Russian Federation and one representative office in the Republic of Belarus).

The Bank's registered legal address is 9, Prechistenskaya Embankment, Moscow, Russian Federation, 119034.

The primary activities of the Group are deposit taking, lending, providing payments and settlement services, transactions with foreign currencies and securities and providing finance leases. The Group operates in industries where significant seasonal or cyclical variations in operating income are not experienced during the financial year. However, since the results of the Group's operations closely relate to and depend on changing market conditions, the results of the Group's operations for the interim period are not necessarily indicative of the results for the year ending 31 December 2018.

2. Basis of preparation

Statement of compliance. These condensed interim consolidated financial statements have been prepared in accordance with IAS 34.

The condensed interim consolidated financial statements are unaudited and do not include all the information and disclosures required in the annual financial statements. The Group omitted disclosures which would substantially duplicate the information contained in its audited annual consolidated financial statements for 2017 prepared in accordance with International Financial Reporting Standards (hereinafter – "IFRS"), such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Group has provided disclosures where significant events have occurred subsequent to the issuance of the Group's annual consolidated financial statements for 2017 prepared in accordance with IFRS. The management believes that the disclosures in these condensed interim consolidated financial statements are adequate to make the information presented not misleading if these financial statements are read in conjunction with the Group's annual consolidated financial statements for 2017 prepared in accordance with IFRS. In the opinion of the management, these financial statements reflect all adjustments necessary to present fairly the Group's financial position, results of operations, statements of changes in shareholders' equity and cash flows for the interim reporting periods.

(in thousands of Russian Rubles)

2. Basis of preparation (continued)

Basis of measurement. These condensed interim consolidated financial statements are prepared on the historical cost basis except that financial instruments held for trading, assets at fair value through other comprehensive income and derivative financial instruments are stated at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Presentation currency. These condensed interim consolidated financial statements are presented in Russian Rubles (hereinafter – "RUB"). Amounts in Russian Rubles are rounded to the nearest thousand.

The exchange rates used by the Group in the preparation of the condensed interim consolidated financial statements as at period-end are as follows:

	30 September 2018	**31 December 2017**
RUB/1 US Dollar	65.5906	57.6002
RUB/1 Euro	76.2294	68.8668

Use of estimates and judgements. The preparation of financial statements in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In preparing these condensed interim consolidated financial statements the significant judgements made by the management in applying accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated financial statements for the year ended 31 December 2017.

Going concern. These condensed interim consolidated financial statements have been prepared on the going concern basis. The Group has no intention or need to reduce substantially its business operations.

The management and shareholder have the intention to further develop the business of the Group in the Russian Federation both in corporate and retail segments. The management believes that the going concern assumption is appropriate for the Group due to its sufficient capital adequacy ratio and based on historical experience that short term obligations will be refinanced in the normal course of business.

(in thousands of Russian Rubles)

3. Significant accounting policies

Interim measurement period. Income tax expense is recognized in these condensed interim consolidated financial statements based on the management's best estimate of the weighted average effective annual income tax rate expected for the full financial year. Costs that incur unevenly during the financial year are anticipated or deferred in the interim report only if it would also be appropriate to anticipate or defer such costs at the end of the financial year.

The same accounting policies, presentation and methods of computation have been followed in these condensed interim consolidated financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2017 apart from adoption of "IFRS 9: Financial instruments".

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

New or amended standard or interpretation	Effective date[1] - for annual periods beginning on or after
Prepayment Features with Negative Compensation (Amendments to IFRS 9)	1 January 2019
IFRS 16 *Leases*	1 January 2019
Amendments to IFRS 10 and IAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Date to be determined by the IASB[2]
Annual Improvements to IFRS Standards 2015–2017 Cycle	

[1] Early adoption is permitted for all new or amended standards and interpretations. IFRS 16 *Lease* can be early adopted if IFRS 15 *Revenue from Contracts with Customers* has also been applied.
[2] The amendment was initially issued in September 2014 with the effective date on 1 January 2017. In December 2015 the IASB deferred the effective date of the amendments indefinitely until the research project on the equity method has been concluded.

Effective 1 January 2018, the Group has prospectively adopted IFRS 9 Financial Instruments (IFRS 9), which addressed impairment, classification and measurement, and hedge accounting.

Transition to IFRS 9. As of 1 January 2018, the Group has adopted the accounting standard "IFRS 9: Financial instruments".

The adoption of the standard is the result of a long-term project aimed at creating reporting and risk monitoring methods that ensure full compliance with the standard and at updating governance and monitoring processes in light of the new rules.

The project was organized through specific work-streams:

- Classification and Measurement work-stream, aimed at reviewing the classification of the financial instruments according to new IFRS 9 criteria.
- Impairment work-stream, aimed at developing and implementing models and methodologies for impairment calculation.

3. Significant accounting policies (continued)

The following should be noted with regards to the new accounting policies:

- It introduced significant changes in rules of classifying and measuring financial instruments compared to IAS 39.
- With reference to loans and debt instruments, the classification and consequent measurement of these instruments is based on the "business model" and on the characteristics of the cash flows of the financial instrument (criteria SPPI - Solely Payments of Principal and Interests, hereinafter – "SPPI").
- With reference to equity instruments, they are classified as financial instruments at fair value either through profit or loss or through other comprehensive income. In this second case, unlike previous requirements for available for sale assets set by IAS 39, IFRS 9 has eliminated the request to recognize impairment losses and provide for, in case of disposal of the instruments, the gain or losses from disposal shall be recycled to other equity reserve and not to profit or loss accounts.
- With reference to financial liabilities designed at fair value, it modified the accounting treatment of "own credit risk", in other words changes in the fair value of issued debt liabilities that are designated at fair value not attributable to changes of the own credit price. The new accounting standard requires these changes shall be recognized in a specific equity reserve, rather than to the income statement, as requested under IAS 39, therefore removing a volatility source from the economic results.
- It introduced a new accounting model for impairment, based on (i) expected losses approach substituting the previous approach based on the incurred losses, and (ii) on the concept of "lifetime" expected losses.
- It introduced guidelines that clarify when financial instruments shall be written off by specifying that the write-off constitutes an event of accounting derecognition.
- With reference to hedge accounting the Group opted to keep applying the existing hedge accounting requirements in IAS 39 for all hedge accounting until the IASB will complete its project on accounting for macro hedging.

The Group has decided to exploit the option provided by the accounting standard not to restate comparative figures of previous periods, consequently, for the Group, the first time adoption of the new standard is 1 January 2018.

Classification and measurement. As a result of the entry into force the new accounting standard, the Group has reclassified financial assets and liabilities as at 1 January 2018 into the new envisaged categories.

The analysis of the business model has been performed by mapping the business areas composing the Group and by attributing them a specific business model.

In this regard, a "held to collect" or "held to collect and sell" business model has been attributed to the business areas composing the banking portfolio of the Group in relation to the reasons why the instrument has been acquired or originated and to the expected turnover of financial instruments.

In this context, possible sales of financial instruments are considered as compliant with a "held to collect" business model in case of (i) securitization transactions that do not achieve the derecognition of the underlying loans, (ii) sales determined by adverse change in the credit risk of the counterparty, (iii) sales that are infrequent or not significant to be evaluated case by base.

A business model "other" has been assigned to the business areas composing the trading portfolio of the Group so to reflect the trading intent.

For the classification of financial assets in the new IFRS 9 categories, the analysis of the business model is complemented by the analysis of the contractual cash flows ("SPPI Test").

3. Significant accounting policies (continued)

In this regard, the Group has developed processes and systems aimed at analyzing the portfolio of securities and loans so to assess whether the features of their contractual cash flows allows their measurement at amortized cost ("held to collect" portfolio) or at fair value through comprehensive income ("held to collect and sell" portfolio).

The analysis in question was carried out both by contract and by defining specific clusters based on the characteristics of the transactions and using a specific internally developed tool ("SPPI tool") to analyze the contract features with respect to IFRS 9 requirements, or by using external data providers.

Impairment. Loans and debt securities classified as financial assets at amortized cost, financial assets at fair value through comprehensive income and relevant off-balance sheet exposures are tested for impairment as required by IFRS 9.

In this regards, these instruments are classified in stage 1, stage 2 or stage 3 according to their absolute or relative credit quality with respect to initial disbursement. Specifically:

- Stage 1: includes (i) newly originated exposures, (iii) exposures with "no significant deterioration in credit quality since initial recognition" or (iii) "low credit risk" exposures at the reporting date.
- Stage 2: includes credit exposures that, although performing, have seen their credit risk significantly deteriorating since initial recognition.
- Stage 3: includes impaired credit exposures.

For exposures in stage 1, impairment is equal to the expected loss calculated over a time horizon of up to one year.

For exposures in stage 2 or 3, impairment is equal to the expected loss calculated over a time horizon corresponding to the entire life of the exposure.

In order to meet the requirements of the standard, the Group has developed specific models to calculate expected loss based on PD, LGD and EAD parameters, used for Basel purposes and adjusted in order to ensure consistency with accounting regulation.

In this context, "forward looking" information was included in the calculation. The Unicredit Group (the parent company) provides the "forward looking" information.

The Stage Allocation model is a key aspect of the new accounting model required to calculate expected credit losses. The stage allocation assessment includes a combination of relative and absolute triggers. Main triggers include:

- The relative comparison, at transaction level, between the PD at origination and the PD at each reporting date, both calculated through internal models, with thresholds set in such a way to consider all the key variables of each transaction that could affect expectation about PD changes over time (e.g. age, maturity, level of PD at origination).
- Absolute triggers such as backstops required by the regulation (i.e. 30 days past due)
- Other internal relevant triggers (e.g. new classifications to Forborne).

With regards to debt securities, the Group opted for application of the low credit risk exemption on the investment grade securities in full compliance with the accounting standard.

Allowance for impairment of loans and receivables are based on the present value of expected cash flows of principal and interest. In determining the present value of future cash flows, the basic requirement is the identification of estimated collections, the timing of payments and the discount rate used.

(in thousands of Russian Rubles)

3. Significant accounting policies (continued)

The following table shows the transition IAS 39 / IAS 37 and corresponding IFRS 9 classification and measurement categories, and reconciles the IAS 39 / IAS 37 and IFRS 9 carrying amounts for loans, securities and off-balance sheet exposures as at 1 January 2018 as a result of IFRS 9 adoption. There were no changes to the measurement basis of other financial asset categories and liabilities.

	IAS 39 measurement category	IFRS 9 measurement category	IAS 39/ IAS 37 carrying amount	Reclassification	Remeasurement	IFRS 9 / IAS 37 carrying amount
Financial assets						
Debt securities and equity investments	Trading	Trading	20 869 537	-	-	20 869 537
	Available-for-sale	Fair value through other comprehensive income	77 466 266	29 937 423	1 207 293	108 610 982
	Held-to-maturity	Amortized cost	29 937 423	(29 937 423)	-	-
Total debt securities and equity investments			**128 273 226**	**-**	**1 207 293**	**129 480 519**
Amounts due from credit institutions	Amortized cost	Amortized cost	292 420 614	-	(515 196)	291 905 418
Loans to customers	Amortized cost	Amortized cost	668 523 180	-	(10 307 136)	658 216 044
Total amounts due from credit institutions and customers			**960 943 794**	**-**	**(10 822 332)**	**950 121 462**
Financial liabilities						
Provisions for credit losses on off-balance sheet exposures			(1 458 050)	-	(4 415 144)	(5 873 194)
Total provisions for credit losses on off-balance sheet exposures			**(1 458 050)**	**-**	**(4 415 144)**	**(5 873 194)**
Total pre-tax impact of IFRS 9 adoption					**(14 030 183)**	

The following table illustrates the impact of IFRS 9 adoption on the Group's equity, in particular on revaluation reserve and retained earnings as of 1 January 2018:

	Revaluation reserve for available-for-sale securities	Revaluation reserve for financial assets at fair value through other comprehensive income	Retained earnings
31 December 2017	**226 583**	**-**	**158 050 599**
Reclassification of financial assets as a result of business models assessment, net of tax	(226 583)	226 583	-
Remeasurement of financial assets as a result of business model assessment, net of tax (unaudited)	-	965 834	-
Remeasurement of financial assets due to adoption of the impairment loss provisions of IFRS 9, net of tax (unaudited)	-	124 019	(12 313 369)
1 January 2018	**-**	**1 316 436**	**(145 737 230)**

(in thousands of Russian Rubles)

4. Operating segments

For the management purposes, the Group has four reporting business segments:

Corporate and Investment banking (hereinafter – *"CIB")* includes corporate lending, project and commodity and corporate structured finance, corporate sight and term deposit services, securities, foreign currency and derivatives trading and custody services.

Retail banking comprises banking services to private individuals and Small and Medium Entities (hereinafter – "SME"), credit and debit card services, retail sight and term deposit services, lending to SME and retail lending (consumer loans, car loans and mortgages).

Leasing – represents the leasing activities of the Group.

Other – represents the Group's funding activities and other unallocated items.

Information about each segment is measured on the same basis as the information used for decision making purposes for allocating resources to segments and assessing segment performance and is prepared on the same basis as the consolidated financial statements.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers included in segment revenue. Interest charged for these funds is based on the Group's funds transfer pricing policy.

Segment breakdown of assets and liabilities is set out below:

	30 September 2018 (unaudited)	**31 December 2017**
Assets		
CIB	964 879 951	896 130 421
Retail banking	139 119 432	123 712 238
Leasing	23 969 870	21 339 598
Other	88 813 577	144 959 366
Total assets	**1 216 782 830**	**1 186 141 623**
Liabilities		
CIB	703 810 257	672 598 151
Retail banking	275 549 449	263 701 533
Leasing	19 848 993	17 614 994
Other	24 965 953	31 993 536
Total liabilities	**1 024 174 652**	**985 908 214**

(in thousands of Russian Rubles)

4. Operating segments (continued)

Segment information for the operating segments for the three-month period ended 30 September 2018 is set out below (unaudited):

	CIB	Retail banking	Leasing	Other	Total
Net interest income/(expense) from external customers	7 168 053	2 621 566	399 076	(226 382)	9 962 313
Inter-segment (expense)/income	(249 351)	448 903	-	(199 552)	-
Net interest income/(expense)	**6 918 702**	**3 070 469**	**399 076**	**(425 934)**	**9 962 313**
Net fee and commission income from external customers	883 857	1 301 577	6 693	-	2 192 127
Dividend income	-	-	-	4 985	4 985
(Losses)/gains on financial assets and liabilities held for trading from external customers	(1 789 042)	435 787	(1 099)	(18 687)	(1 373 041)
Fair value adjustments in portfolio hedge accounting	-	-	-	722	722
Gains on disposals of financial assets	90 922	163 087	-	-	254 009
Operating income/(expense)	**6 104 439**	**4 970 920**	**404 670**	**(438 914)**	**11 041 115**
Impairment on loans and other financial transactions	(1 508 327)	(493 100)	(125 331)	(107 250)	(2 234 008)
Net income/(expense) from financial activities	**4 596 112**	**4 477 820**	**279 339**	**(546 164)**	**8 807 107**
Operating costs including:	(1 683 813)	(2 709 220)	(106 922)	(376 621)	(4 876 576)
depreciation on fixed assets and amortization of intangible assets	(209 044)	(383 389)	(609)	-	(593 042)
Share of gains of associate	-	-	-	284 201	284 201
Gain on disposal of fixed assets	-	-	-	3 090	3 090
Profit/(loss) before income tax expense	**2 912 299**	**1 768 600**	**172 417**	**(635 494)**	**4 217 822**
Income tax expense					(831 544)
Profit for the period					**3 386 278**
Cash flow hedge reserve					453 629
Revaluation reserve for financial assets at fair value through other comprehensive income					(792 441)
Foreign currency translation reserve					(10 176)
Total comprehensive income for the period					**3 037 290**

(in thousands of Russian Rubles)

4. Operating segments (continued)

Segment information for the operating segments for the three-month period ended 30 September 2017 is set out below (unaudited):

	CIB	Retail banking	Leasing	Other	Total
Net interest income from external customers	7 793 667	2 073 423	331 170	139 125	10 337 385
Inter-segment (expense)/income	(1 769 143)	411 738	-	1 357 405	-
Net interest income	**6 024 524**	**2 485 161**	**331 170**	**1 496 530**	**10 337 385**
Net fee and commission income from external customers	749 968	1 036 106	5 356	-	1 791 430
Gains/(losses) on financial assets and liabilities held for trading from external customers	478 060	319 697	902	(11 450)	787 209
Fair value adjustments in portfolio hedge accounting	-	-	-	(122 550)	(122 550)
Gains on disposals of financial assets	594 381	3 315	-	-	597 696
Operating income	**7 846 933**	**3 844 279**	**337 428**	**1 362 530**	**13 391 170**
Impairment on loans and other financial transactions	(2 026 247)	(951 040)	(21 782)	-	(2 999 069)
Net income from financial activities	**5 820 686**	**2 893 239**	**315 646**	**1 362 530**	**10 392 101**
Operating costs including:	(1 559 938)	(2 550 899)	(75 155)	(315 445)	(4 501 437)
depreciation on fixed assets and amortization of intangible assets	(184 099)	(313 965)	(1 215)	-	(499 279)
impairment of fixed assets	(8 522)	(17 708)	-	-	(26 230)
Losses on disposal of fixed assets	-	-	-	31	31
Profit before income tax expense	**4 260 748**	**342 340**	**240 491**	**1 047 116**	**5 890 695**
Income tax expense					(1 202 196)
Profit for the period					**4 688 499**
Cash flow hedge reserve					99 794
Revaluation reserve for available-for-sale securities					210 411
Total comprehensive income					**4 998 704**

(in thousands of Russian Rubles)

4. Operating segments (continued)

Segment information for the operating segments for the nine-month period ended 30 September 2018 is set out below (unaudited):

	CIB	Retail banking	Leasing	Other	Total
Net interest income from external customers	21 926 709	7 150 163	1 156 595	332 680	30 566 147
Inter-segment (expense)/income	(1 741 705)	1 362 069	-	379 636	-
Net interest income	**20 185 004**	**8 512 232**	**1 156 595**	**712 316**	**30 566 147**
Net fee and commission income from external customers	2 610 931	3 854 835	18 666	-	6 484 432
Dividend income	-	-	-	4 987	4 987
(Losses)/gains on financial assets and liabilities held for trading from external customers	(2 906 528)	1 066 896	409	413	(1 838 810)
Fair value adjustments in portfolio hedge accounting	-	-	-	96 828	96 828
Gains on disposals of financial assets	1 634 971	369 701	-	-	2 004 672
Operating income	**21 524 378**	**13 803 664**	**1 175 670**	**814 544**	**37 318 256**
Impairment on loans and other financial transactions	(6 088 048)	(2 037 024)	(185 348)	(149 973)	(8 460 393)
Net income from financial activities	**15 436 330**	**11 766 640**	**990 322**	**664 571**	**28 857 863**
Operating costs including:	(4 874 891)	(7 896 564)	(305 094)	(1 045 950)	(14 122 499)
depreciation on fixed assets and amortization of intangible assets	(599 067)	(1 067 478)	(2 185)	-	(1 668 730)
Share of gain in associate	-	-	-	730 981	730 981
Gains on disposal of fixed assets	-	-	-	3 460	3 460
Profit before income tax expense	**10 561 439**	**3 870 076**	**685 228**	**353 062**	**15 469 805**
Income tax expense					(3 074 237)
Profit for the period					**12 395 568**
Cash flow hedge reserve					1 155 004
Revaluation reserve for available-for-sale securities					(3 058 639)
Foreign currency translation reserve					(34 032)
Total comprehensive income					**10 457 901**

(in thousands of Russian Rubles)

4. Operating segments (continued)

Segment information for the operating segments for the nine-month period ended 30 September 2017 is set out below (unaudited):

	CIB	**Retail banking**	**Leasing**	**Other**	**Total**
Net interest income from external customers	22 593 065	6 457 857	923 304	263 304	30 237 530
Inter-segment (expense)/income	(5 041 540)	908 315	-	4 133 225	-
Net interest income	**17 551 525**	**7 366 172**	**923 304**	**4 396 529**	**30 237 530**
Net fee and commission income from external customers	2 197 060	2 970 399	4 748	-	5 172 207
Dividend income	-	-	-	2	2
Gains/(losses) on financial assets and liabilities held for trading from external customers	1 138 682	921 612	141	(17 934)	2 042 501
Fair value adjustments in portfolio hedge accounting	-	-	-	(108 918)	(108 918)
Gains on disposals of financial assets	1 418 306	4 996	-	-	1 423 302
Operating income	**22 305 573**	**11 263 179**	**928 193**	**4 269 679**	**38 766 624**
Impairment on loans and other financial transactions	(5 097 101)	(2 001 839)	(77 797)	-	(7 176 737)
Net income from financial activities	**17 208 472**	**9 261 340**	**850 396**	**4 269 679**	**31 589 887**
Operating costs including:	(4 629 577)	(7 316 114)	(256 009)	(771 095)	(12 972 795)
depreciation on fixed assets and amortization of intangible assets	(509 847)	(833 886)	(3 782)	-	(1 347 515)
depreciation on fixed assets and amortization of intangible assets	(22 239)	(71 435)	-	-	(93 674)
Gains on disposal of fixed assets	-	-	-	1 020	1 020
Profit before income tax expense	**12 578 895**	**1 945 226**	**594 387**	**3 499 604**	**18 618 112**
Income tax expense					(3 838 340)
Profit for the period					**14 779 772**
Cash flow hedge reserve					(567 416)
Revaluation reserve for available-for-sale securities					536 296
Total comprehensive income					**14 748 652**

(in thousands of Russian Rubles)

5. Cash and cash balances

Cash and cash balances comprise:

	30 September 2018 (unaudited)	31 December 2017
Cash on hand	9 656 550	11 771 673
Current accounts with the CBR	7 745 966	18 430 977
Cash and cash balances	**17 402 516**	**30 202 650**

As at 30 September 2018 there is no cash pledged as collateral for mortgage-backed bonds due to the redemption of these bonds in September 2018 (31 December 2017: RUB 2 452 807 thousand) (see Note 15 for details).

6. Trading securities

Trading securities comprise:

	30 September 2018 (unaudited)	31 December 2017
USD denominated		
Russian government eurobonds	-	2 383 299
RUB denominated		
Central Bank bonds	10 090 800	-
Russian government bonds	2 723 152	18 455 671
Corporate and bank bonds	1 501 373	30 567
Trading securities	**14 315 325**	**20 869 537**

As at 30 September 2018 there are no trading securities sold under repurchase agreements (31 December 2017: RUB 804 699 thousand) (see Note 13 for details).

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	30 September 2018 (unaudited)	31 December 2017
Current accounts with credit institutions	70 002 820	44 375 824
Time deposits	91 266 246	187 161 615
Reverse repurchase agreements with credit institutions	124 078 770	51 791 048
Obligatory reserve with the CBR	11 371 140	9 092 127
Gross amounts due from credit institutions	**296 718 976**	**292 420 614**
Less: Impairment loss allowance	(206 886)	-
Amounts due from credit institutions	**296 512 090**	**292 420 614**

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

(in thousands of Russian Rubles)

7. Amounts due from credit institutions (continued)

A reconciliation of the impairment loss allowance is as follows:

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2018 (unaudited)	**2017 (unaudited)**	**2018 (unaudited)**	**2017 (unaudited)**
Impairment loss allowance at the beginning of the period	**200 809**	**-**	**-**	**-**
Effect of change in accounting policy due to IFRS 9 adoption	-	-	515 196	-
Impairment loss allowance at the beginning of the period according to IFRS 9	**200 809**	**-**	**515 196**	**-**
Recovery for the period	(309)	-	(334 896)	-
Effect of exchange rate changes	6 386	-	26 586	-
Impairment loss allowance at the end of the period	**206 886**	**-**	**206 886**	**-**

As of 30 September 2018 and 1 January 2018 all amounts due from credit institutions were allocated to Stage 1 in accordance with IFRS 9.

As at 30 September 2018 there are three counterparties with balances that individually exceed 10% of the Group's equity. As at 30 September 2018 the aggregate amount of these balances is RUB 231 770 117 thousand (31 December 2017: two counterparties with aggregate amount of RUB 193 202 731 thousand).

As at 30 September 2018 the Group entered into reverse repurchase agreements with a number of Russian banks. Pledged under these agreements are Russian government bonds, corporate and bank bonds with the total fair value of RUB 132 514 594 thousand (31 December 2017: RUB 55 670 810 thousand).

As at 30 September 2018 Russian government bonds with the total fair value of RUB 2 674 144 thousand (31 December 2017: RUB 26 399 813 thousand) were sold out of collateral pledged under reverse repurchase agreements with banks and disclosed as financial liabilities held for trading in the condensed interim consolidated statement of financial position. The Group has the obligation to return these securities at the maturity of the related reverse repurchase agreements.

As at 30 September 2018 securities in amount of RUB 99 889 thousand (31 December 2017: RUB 4 383 393 thousand) were repledged under repurchase agreements with credit institutions (see Note 13 for details). The Group has the obligation to return these securities at the maturity of the related reverse repurchase agreements.

8. Derivative financial instruments

The Group enters into derivative financial instruments principally for trading and hedging purposes. The tables below show the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or notional amount to which reference rate or index is applied and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the end of reporting period and are indicative of neither the market risk nor the credit risk.

(in thousands of Russian Rubles)

8. Derivative financial instruments (continued)

The Group values the derivative financial instruments using widely accepted valuation techniques, which are based on market interest rates and forward currency rates. Significant changes in these variables could cause the fair value of the derivatives to change materially.

The table below shows the fair value of derivative instruments held for trading, recorded as assets or liabilities, together with their notional amounts.

	30 September 2018 (unaudited)			31 December 2017		
	Notional principal	Fair value Asset	Fair value Liability	Notional principal	Fair value Asset	Fair value Liability
Cross-currency interest rate swaps	287 927 235	21 660 743	12 854 699	269 447 898	28 163 370	7 875 459
Interest rate swaps and options	415 782 413	6 548 781	4 866 746	307 937 745	7 338 194	6 107 424
Foreign exchange forwards, options and swaps	154 523 121	2 649 763	2 844 586	139 320 810	2 484 342	1 675 413
Total derivative assets/liabilities		**30 859 287**	**20 566 031**		**37 985 906**	**15 658 296**

The table below shows the fair value of derivative financial instruments designated for hedging, recorded as assets or liabilities, together with their notional amounts.

	30 September 2018 (unaudited)			31 December 2017		
	Notional principal	Fair value Asset	Fair value Liability	Notional principal	Fair value Asset	Fair value Liability
Cash flow hedge						
Interest rate swaps	450 405 083	3 035 618	2 597 847	254 378 234	862 119	1 132 581
Cross-currency interest rate swaps	186 067 856	1 027 208	6 462 439	122 585 668	6 143 932	2 198 665
Total cash flow hedge		**4 062 826**	**9 060 286**		**7 006 051**	**3 331 246**
Fair value hedge						
Interest rate swaps	555 680 368	2 420 781	6 636 093	440 281 313	854 557	7 318 595
Total fair value hedge		**2 420 781**	**6 636 093**		**854 557**	**7 318 595**
Total derivative financial assets/ liabilities designated for hedging		**6 483 607**	**15 696 379**		**7 860 608**	**10 649 841**

9. Loans to customers

Loans to customers comprise:

	30 September 2018 (unaudited)	31 December 2017
Corporate customers	610 346 042	532 641 491
Retail customers, including SME	152 562 864	137 636 984
Lease receivables	21 555 828	19 739 478
Reverse repurchase agreements with companies	15 475 121	21 292 270
Gross loans to customers	**799 939 855**	**711 310 223**
Less: Impairment loss allowance	(56 810 101)	(42 787 043)
Loans to customers	**743 129 754**	**668 523 180**

(in thousands of Russian Rubles)

9. Loans to customers (continued)

A reconciliation of the impairment loss allowance is as follows:

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2018 (unaudited)	**2017 (unaudited)**	**2018 (unaudited)**	**2017 (unaudited)**
Impairment loss allowance at the beginning of the period	**58 019 099**	**42 549 263**	**42 787 043**	**45 254 751**
Effect of change in accounting policy due to IFRS 9 adoption	-	-	10 307 136	-
Impairment loss allowance at the beginning of the period according to IFRS 9	**58 019 099**	**42 549 263**	**53 094 179**	**45 254 751**
Charge for the period	2 478 925	3 024 411	10 501 647	6 078 794
Assets sold or recovered through repossession of collateral during the period	(4 189 884)	(1 150 933)	(5 778 320)	(3 690 817)
Assets written-off during the period	(48 397)	(801 940)	(1 996 801)	(3 881 968)
Unwinding of discount	(284 402)	-	(549 074)	-
Effect of exchange rate changes	834 760	(135 599)	1 538 470	(275 558)
Impairment loss allowance at the end of the period	**56 810 101**	**43 485 202**	**56 810 101**	**43 485 202**

A reconciliation of the impairment loss allowance by stages in accordance with IFRS 9 is as follows:

	Three-month period ended 30 September 2018 (unaudited)			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Impairment loss allowance at the beginning of the period according to IFRS 9	**7 591 772**	**3 334 666**	**47 092 661**	**58 019 099**
Charge/(recovery) for the period	582 155	(750 418)	2 647 188	**2 478 925**
Assets sold or recovered through repossession of collateral during the period	-	-	(4 189 884)	**(4 189 884)**
Assets written-off during the period	-	-	(48 397)	**(48 397)**
Unwinding of discount	-	-	(284 402)	**(284 402)**
Effect of exchange rate changes	137 042	-	697 718	**834 760**
Impairment loss allowance at the end of the period according to IFRS 9	**8 310 969**	**2 584 248**	**45 914 884**	**56 810 101**

(in thousands of Russian Rubles)

9. Loans to customers (continued)

	Nine-month period ended 30 September 2018 (unaudited)			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Impairment loss allowance at the beginning of the period according to IFRS 9	**8 357 461**	**2 961 651**	**41 775 067**	**53 094 179**
Charge/(recovery) for the period	127 028	(379 078)	10 753 697	**10 501 647**
Assets sold or recovered through repossession of collateral during the period	(5 626)	-	(5 772 694)	**(5 778 320)**
Assets written-off during the period	-	-	(1 996 801)	**(1 996 801)**
Unwinding of discount	-	-	(549 074)	**(549 074)**
Effect of exchange rate changes	(167 894)	1 675	1 704 689	**1 538 470**
Impairment loss allowance at the end of the period according to IFRS 9	**8 310 969**	**2 584 248**	**45 914 884**	**56 810 101**

Write-off and sale of loans. The decision to write-off the loan is made by the authorized body of the Group. Loans are written-off after receiving all necessary documentation from the authorized state bodies, as well as under the conditions where further debt collection is not possible.

The decision to sell the loans is taken individually for each case, for both corporate and retail loans. The decision is taken by the authorized body of the Group based on the analysis of all possible alternative strategies for debt collection, the main criterion for the adoption of which is to minimize the losses of the Group’s impaired assets.

(in thousands of Russian Rubles)

9. Loans to customers (continued)

The following table shows gross loans to customers and related impairment as at 30 September 2018 (unaudited):

	Gross loans	Impairment	Net loans
Corporate customers			
Loans for which no indications of impairment have been identified on an individual basis, not past due	554 786 288	(6 422 222)	548 364 066
Loans for which no specific impairment is identified on an individual basis, past due			
- Past due 31-90 days	4 002 295	(157 319)	3 844 976
Impaired loans			
- Not past due	7 804 497	(3 605 898)	4 198 599
- Past due less than 31 days	1 953 612	(525 968)	1 427 644
- Past due 31-90 days	816 469	(535 065)	281 404
- Past due 91-180 days	15 946 046	(7 949 296)	7 996 750
- Past due over 180 days	25 036 835	(22 749 365)	2 287 470
Total loans to corporate customers	**610 346 042**	**(41 945 133)**	**568 400 909**
Retail customers and SME			
Not impaired loans, not past due	135 830 175	(2 643 484)	133 186 691
Not impaired loans, past due			
- Past due less than 31 days	3 439 978	(600 451)	2 839 527
- Past due 31-90 days	1 016 985	(502 497)	514 488
- Past due 91-180 days	444 862	(156 025)	288 837
- Past due over 180 days	50 777	(6 953)	43 824
Impaired loans			
- Not past due	332 046	(189 982)	142 064
- Past due less than 31days	177 377	(85 726)	91 651
- Past due 31-90 days	103 229	(75 701)	27 528
- Past due 91-180 days	608 011	(464 873)	143 138
- Past due over 180 days	10 559 424	(9 502 901)	1 056 523
Total loans to retail customers and SME	**152 562 864**	**(14 228 593)**	**138 334 271**
Lease receivables			
Loans for which no indications of impairment have been identified on an individual basis, not past due	20 472 258	(356 728)	20 115 530
Loans for which no specific impairment is identified on an individual basis, past due			
- Past due less than 31 days	522 110	(17 596)	504 514
- Past due 31-90 days	114 298	(4 069)	110 229
Impaired loans			
- Not past due	105 358	(51 272)	54 086
- Past due less than 31days	52 616	(23 021)	29 595
- Past due 31-90 days	111 691	(65 559)	46 132
- Past due 91-180 days	138 237	(63 384)	74 853
- Past due over 180 days	39 260	(26 873)	12 387
Total lease receivables	**21 555 828**	**(608 502)**	**20 947 326**
Reverse repurchase agreements with companies			
Loans for which no indications of impairment have been identified on an individual basis, not past due	15 475 121	(27 873)	15 447 248
Total loans to customers	**799 939 855**	**(56 810 101)**	**743 129 754**

(in thousands of Russian Rubles)

9. Loans to customers (continued)

The following table shows gross loans to customers and related impairment as at 31 December 2017:

	Gross loans	Impairment	Net loans
Corporate customers			
Loans for which no indications of impairment have been identified on an individual basis, not past due	497 171 089	(1 663 263)	495 507 826
Loans for which no specific impairment is identified on an individual basis, past due			
- Past due less than 31 days	16 197	(138)	16 059
Impaired loans			
- Not past due	7 232 084	(3 116 168)	4 115 916
- Past due less than 31 days	68 219	(14 374)	53 845
- Past due 31-90 days	2 782 999	(1 900 703)	882 296
- Past due 91-180 days	322 792	(217 187)	105 605
- Past due over 180 days	25 048 111	(21 611 597)	3 436 514
Total loans to corporate customers	**532 641 491**	**(28 523 430)**	**504 118 061**
Retail customers and SME			
Not impaired loans, not past due	118 955 750	(1 059 955)	117 895 795
Not impaired loans, past due			
- Past due less than 31 days	1 653 541	(125 075)	1 528 466
- Past due 31-90 days	836 704	(155 241)	681 463
- Past due 91-180 days	206 464	(93 128)	113 336
- Past due over 180 days	12 399	(7 482)	4 917
Impaired loans			
- Not past due	347 429	(2 130)	345 299
- Past due less than 31 days	56 326	(4 833)	51 493
- Past due 31-90 days	99 565	(17 789)	81 776
- Past due 91-180 days	661 491	(293 929)	367 562
- Past due over 180 days	14 807 315	(12 165 184)	2 642 131
Total loans to retail customers and SME	**137 636 984**	**(13 924 746)**	**123 712 238**
Lease receivables			
Loans for which no indications of impairment have been identified on an individual basis, not past due	19 091 526	(77 650)	19 013 876
Loans for which no specific impairment is identified on an individual basis, past due			
- Past due less than 31 days	147 460	(1 316)	146 144
- Past due 31-90 days	69 518	(589)	68 929
Impaired loans			
- Not past due	39 229	(7 185)	32 044
- Past due less than 31 days	27 205	(12 385)	14 820
- Past due 31-90 days	111 265	(53 992)	57 273
- Past due 91-180 days	159 761	(118 078)	41 683
- Past due over 180 days	93 514	(67 672)	25 842
Total lease receivables	**19 739 478**	**(338 867)**	**19 400 611**
Reverse repurchase agreements with companies			
Loans for which no indications of impairment have been identified on an individual basis, not past due	21 292 270	-	21 292 270
Total loans to customers	**711 310 223**	**(42 787 043)**	**668 523 180**

(in thousands of Russian Rubles)

9. Loans to customers (continued)

The following table shows gross loans to customers and related impairment distributed by stages according to IFRS 9 as at 30 September 2018 (unaudited):

	Stage 1	Stage 2	Stage 3	Total
Corporate customers				
Gross loans	553 156 527	5 632 056	51 557 459	610 346 042
Impairment	(5 917 779)	(661 762)	(35 365 592)	(41 945 133)
Net loans to corporate customers	**547 238 748**	**4 970 294**	**16 191 867**	**568 400 909**
Retail customers and SME				
Gross loans	131 978 291	8 804 486	11 780 087	152 562 864
Impairment	(2 000 012)	(1 909 398)	(10 319 183)	(14 228 593)
Net loans to retail customers and SME	**129 978 279**	**6 895 088**	**1 460 904**	**138 334 271**
Lease receivables				
Gross lease receivables	20 763 260	345 406	447 162	21 555 828
Impairment	(365 305)	(13 088)	(230 109)	(608 502)
Net lease receivables	**20 397 955**	**332 318**	**217 053**	**20 947 326**
Reverse repurchase agreements with companies				
Gross loans	15 475 121	-	-	15 475 121
Impairment	(27 873)	-	-	(27 873)
Net reverse repurchase agreements with companies	**15 447 248**	**-**	-	**15 447 248**
Total loans to customers	**713 062 230**	**12 197 700**	**17 869 824**	**743 129 754**

As at 30 September 2018 the Group entered into reverse repurchase agreements with a number of Russian companies. Pledged under these agreements are Russian government bonds, corporate and bank bonds with the total fair value of RUB 16 270 132 thousand (31 December 2017: RUB 22 732 595 thousand).

As at 30 September 2018 the Group had RUB 206 844 045 thousand due from its ten largest borrowers (26% of gross loan portfolio) (31 December 2017: RUB 178 361 295 thousand or 25%). An allowance of RUB 344 484 thousand was recognized against these loans (31 December 2017: RUB 98 324 thousand).

As at 30 September 2018 the Group had seven borrowers or groups of borrowers with aggregate loan amounts that individually exceeded 10% of equity (31 December 2017: three borrowers or groups of borrowers). As at 30 September 2018 the gross amount of these loans is RUB 181 488 093 thousand (31 December 2017: RUB 102 064 854 thousand).

Included in retail loans as at 31 December 2017 are mortgage loans with gross amount of RUB 1 865 735 thousand pledged as collateral for mortgage-backed bonds issued by the Group in September 2015 (see Note 15 for details).

(in thousands of Russian Rubles)

10. Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income comprise:

	30 September 2018 (unaudited)	31 December 2017
Debt and other fixed income investments		
USD denominated		
Russian government eurobonds	20 010 925	12 051 460
RUB denominated		
Central bank bonds	36 326 880	30 467 380
Russian government bonds	18 695 077	30 309 317
Corporate and bank bonds	6 361 302	4 518 457
Total debt and other fixed income investments measured at fair value through other comprehensive income	**81 394 184**	**77 346 614**
Equity investments		
RUB denominated		
Equity investments in financial institutions	116 945	116 945
EUR denominated		
Equity investments in financial institutions	6 747	2 707
Total equity investments measures at fair value through other comprehensive income	**123 692**	**119 652**
Total financial assets measures at fair value through other comprehensive income	**81 517 876**	**77 466 266**

As of 30 September 2018 and 1 January 2018 all debt securities classified as financial assets at fair value through other comprehensive income were allocated to Stage 1 in accordance with IFRS 9.

As at 30 September 2018 included in Russian Government bonds are securities sold under repurchase agreements in the amount of RUB 3 525 548 thousand (31 December 2017: RUB 1 254 314 thousand) (see Note 13 for details).

As at 30 September 2018 included in financial assets at fair value through other comprehensive income are Russian government bonds blocked as collateral in order to receive “overnight” loans from the CBR in the amount of RUB 1 294 695 thousand (31 December 2017: RUB 703 552 thousand).
As at 30 September 2018 and 31 December 2017 the Group has no “overnight” loans with the CBR.

As at 1 January 2018 debt securities measured at amortized cost in amount of RUB 29 937 423 thousand were reclassified into category of financial assets at fair value through other comprehensive income due to change of business model at first time adoption of IFRS 9 and consequently sold during the first quarter of 2018.

(in thousands of Russian Rubles)

11. Investments in associate

As at 1 March 2018, as a result of the transaction between the Group and its sole shareholder UniCredit S.p.A., the Group acquired 40% of capital in BARN B.V. (the Netherlands), that is the sole shareholder of AO "RN Bank" (Russian Federation) since 2013 (see Note 1). Total acquisition costs amounted to RUB 6 033 031 thousand, including increase in share capital amounted to RUB 1 209 597 thousand.

Information about associate of the Group as at reporting date is set out below:

Name	**Principal activity**	**Place of incorporation and principal place of business**	**Proportion of ownership interest by the Group**	
			30 September 2018	**31 December 2017**
BARN B.V.	Holding company	Netherlands	40%	-

The above associate is accounted for using the equity method.

The summarized financial information in respect of BARN B.V. as of reporting date 30 September 2018 and as of the acquisition date 1 March 2018 are set out below. The summarized financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRS.

	30 September 2018 (unaudited)	**1 March 2018 (unaudited)**
Total assets	82 708 699	76 869 505
Total liabilities	66 511 887	65 429 009
Equity	16 196 812	11 440 496
Net profit from 1 January 2018	2 255 135	427 683

The carrying amounts of the Group's interest in BARN B.V. as of reporting date 30 September 2018 and as of the acquisition date 1 March 2018 are as follows:

	30 September 2018 (unaudited)	**1 March 2018 (unaudited)**
Net assets of BARN B.V.	16 196 812	11 440 496
Proportion of the Group's ownership interest in BARN B.V.	6 478 725	4 576 198
Goodwill	247 235	247 235
Carrying amount of the Group's interest in BARN B.V.	**6 725 960**	**4 823 433**

The reconciliation of the above financial information to the carrying amount of the interest in associate recognized in the consolidated financial statements is as follows:

Carrying amount of the Group's interest in BARN B.V. as at 1 March 2018 (unaudited)	**4 823 433**
Share of capital increase	1 209 598
Share of post-acquisition net profit of associate	730 981
Share of post-acquisition other comprehensive loss of associate	(38 052)
Carrying amount of the Group's interest in BARN B.V. as at 30 September 2018 (unaudited)	**6 725 960**

(in thousands of Russian Rubles)

12. Taxation

The corporate income tax expense comprises:

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2018 (unaudited)	2017 (unaudited)	2018 (unaudited)	2017 (unaudited)
Current tax charge	1 350 942	1 932 914	5 965 044	5 242 958
Deferred tax charge – reversal of temporary differences	(519 398)	(730 718)	(2 890 807)	(1 404 618)
Income tax expense	**831 544**	**1 202 196**	**3 074 237**	**3 838 340**

Tax effect relating to significant components of other comprehensive income comprises:

	Three-month period ended 30 September 2018 (unaudited)			Three-month period ended 30 September 2017 (unaudited)		
	Amount before tax	Tax expense	Amount net-of-tax	Amount before tax	Tax expense	Amount net-of-tax
Cash flow hedge reserve	567 036	(113 407)	453 629	124 743	(24 949)	99 794
Revaluation reserve for financial assets at fair value through other comprehensive income	(990 552)	198 111	(792 441)	263 014	(52 603)	210 411
Foreign currency translation reserve	(10 176)	-	(10 176)	-	-	-
Other comprehensive income	**(433 692)**	**84 704**	**(348 988)**	**387 757**	**(77 552)**	**310 205**

	Nine-month period ended 30 September 2018 (unaudited)			Nine-month period ended 30 September 2017 (unaudited)		
	Amount before tax	Tax expense	Amount net-of-tax	Amount before tax	Tax expense	Amount net-of-tax
Cash flow hedge reserve	1 443 755	(288 751)	1 155 004	(709 270)	141 854	(567 416)
Revaluation reserve for financial assets at fair value through other comprehensive income	(3 823 299)	764 660	(3 058 639)	670 370	(134 074)	536 296
Foreign currency translation reserve	(34 032)	-	(34 032)	-	-	-
Other comprehensive income	**(2 413 576)**	**475 909**	**(1 937 667)**	**(38 900)**	**7 780**	**(31 120)**

13. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	30 September 2018 (unaudited)	31 December 2017
Current accounts	8 247 333	8 602 207
Time deposits and loans	49 463 989	43 007 455
Repurchase agreements with credit institutions (Notes 6 and 10)	3 402 221	6 099 280
Subordinated debt (Note 19)	31 564 365	27 718 054
Amounts due to credit institutions	**92 677 908**	**85 426 996**

(in thousands of Russian Rubles)

As at 30 September 2018 ten largest deposits, excluding subordinated debt, represented 80% of total amounts due to credit institutions (31 December 2017: 71%).

As at 30 September 2018 and 31 December 2017 the Group had no counterparties with aggregate balances that individually exceeded 10% of equity, excluding subordinated debt.

As at 30 September 2018 fair value of securities pledged under repurchase agreements with credit institutions is RUB 3 525 548 thousand (31 December 2017: RUB 2 059 013 thousand) (see Notes 6 and 10 for details).

As at 30 September 2018 included in repurchase agreements with credit institutions are agreements in the amount of RUB 93 691 thousand (31 December 2017: RUB 4 159 387 thousand) which are secured by Russian government bonds with fair value of RUB 99 889 thousand (31 December 2017: RUB 4 383 393 thousand) obtained under reverse repurchase agreements with credit institutions (see Note 7 for details).

14. Amounts due to customers

The amounts due to customers include the following:

	30 September 2018 (unaudited)	31 December 2017
Current accounts	223 712 174	215 024 971
Time deposits	654 376 247	612 078 354
Amounts due to customers	**878 088 421**	**827 103 325**

As at 30 September 2018, approximately 39% of total amounts due to customers were placed with the Group by its ten largest customers (31 December 2017: 44%).

Analysis of customer accounts by type of customer is as follows:

	30 September 2018 (unaudited)	31 December 2017
Corporate		
Current accounts	94 661 500	102 333 257
Time deposits	508 071 671	461 068 535
Total corporate accounts	**602 733 171**	**563 401 792**
Retail		
Current accounts	129 050 674	112 691 714
Time deposits	146 304 576	151 009 819
Total retail accounts	**275 355 250**	**263 701 533**
Amounts due to customers	**878 088 421**	**827 103 325**

Included in retail time deposits are deposits of individuals in the amount of RUB 133 335 622 thousand (31 December 2017: RUB 133 536 325 thousand). In accordance with the Russian Civil Code, the Group is obliged to repay such deposits upon demand of the depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, the related interest rate on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the contract. Group’s experience shows that majority of the time deposits of individuals mature according to contractual terms and can be treated as stable customer base. The remaining part of retail time deposits in the amount of RUB 12 968 954 thousand (31 December 2017: RUB 17 473 494 thousand) is represented by deposits placed by SME.

(in thousands of Russian Rubles)

15. Debt securities issued

Debt securities issued consists of the following:

Issue	Date of issue	Maturity date	Currency	Coupon rate, %	Carrying value at 30 September 2018 (unaudited)	Carrying value at 31 December 2017
UniCredit Bank, BO-10	26.11.2013	20.11.2018	RUB	9.20	2 376 994	2 324 211
UniCredit Bank, BO-22	12.08.2014	06.08.2019	RUB	9.00	45 709	46 721
UniCredit Bank, BO-21	23.05.2014	17.05.2019	RUB	9.00	836	818
UniCredit Bank, BO-11	26.11.2014	20.11.2019	RUB	9.10	3	3
UniCredit Bank, 02-IP	23.09.2015	16.09.2020	RUB	-	-	4 138 040
Debt securities issued					**2 423 542**	**6 509 793**

In September 2018 the Group redeemed under call option the mortgage-backed bonds (UniCredit Bank, 02-IP) with the nominal value of RUB 4 000 000 thousand. As at 31 December 2017 these bonds with carrying value of RUB 4 138 040 thousand were secured by a pool of mortgage loans with the carrying value of RUB 1 865 735 thousand and by cash in the amount of RUB 2 452 807 thousand (see Notes 5 and 9 for details).

16. Credit related commitments and contingencies

Credit related commitments and contingencies include the following:

	30 September 2018 (unaudited)	31 December 2017
Guarantees issued	139 385 048	140 404 906
Undrawn loan commitments	46 429 088	75 414 793
Letters of credit	32 159 294	35 299 023
Undrawn commitments to issue documentary instruments	16 771 245	39 329 152
Gross credit related commitments and contingencies	**234 744 675**	**290 447 874**

The table above does not include uncommitted lines for loans and documentary instruments.
As at 30 September 2018 the amount of uncommitted lines is RUB 416 682 255 thousand
(31 December 2017: RUB 374 691 425 thousand).

As of 30 September 2018 provision for credit related commitments and contingencies and uncommitted credit lines comprised RUB 4 114 862 thousand (31 December 2017: RUB 1 458 050 thousand).

A reconciliation of provision for credit losses on financial guarantees and other committed and uncommitted credit related commitments and contingencies in accordance with IFRS 9 is as follows:

	Three-month period ended 30 September 2018 (unaudited)				Nine-month period ended 30 September 2018 (unaudited)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance as at the beginning of the period	**3 457 881**	**655 267**	**40 366**	**4 153 514**	**3 614 982**	**515 157**	**285 005**	**4 415 144**
Charge/(recovery) for the period	293 984	(500 759)	(3 067)	(209 842)	136 883	(360 649)	(247 706)	(471 472)
Balance as at the end of the period	**3 751 865**	**154 508**	**37 299**	**3 943 672**	**3 751 865**	**154 508**	**37 299**	**3 943 672**

(in thousands of Russian Rubles)

16. Credit related commitments and contingencies (continued)

A reconciliation of the provisions on credit related commitments in accordance with IAS 37 is as follows:

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2018 (unaudited)	**2017 (unaudited)**	**2018 (unaudited)**	**2017 (unaudited)**
Provisions at the beginning of the period	**170 815**	**1 493 236**	**1 458 050**	**369 951**
Charge/(recovery) for the period	375	(25 342)	(1 286 860)	1 097 943
Provisions at the end of the period	**171 190**	**1 467 894**	**171 190**	**1 467 894**

The following table shows gross financial guarantees and other committed and uncommitted credit related commitments and contingencies and related expected loss under IFRS 9 by stages as of 30 September 2018:

	Stage 1	Stage 2	Stage 3	Total
Gross credit related commitments and contingencies	520 468 054	35 651 858	205 415	**556 325 327**
Provisions for credit related commitments and contingencies	(3 751 865)	(154 508)	(37 299)	**(3 943 672)**
Net credit related commitments and contingencies	**516 716 189**	**35 497 350**	**168 116**	**552 381 655**

The following table shows gross credit related commitments and related impairment under IAS 37 as of 30 September 2018:

	Performing exposure	Impaired exposure	Total
Gross credit related commitments and contingencies	94 010 028	1 091 575	**95 101 603**
Provisions for credit related commitments and contingencies	-	(171 190)	**(171 190)**
Net credit related commitments and contingencies	**94 010 028**	**920 385**	**94 930 413**

Operating environment. Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

Following high volatility in natural resources prices, the ruble exchange rate and interest rates in 2017 have been relatively stable. The Russian economy continued to be negatively impacted by ongoing political tension in the region and continuing international sanctions imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, economic recession and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

(in thousands of Russian Rubles)

16. Credit related commitments and contingencies (continued)

There has continued to be increased economic challenges to the Russian consumers and corporates, which have led to higher defaults in the retail and commercial banking sector. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could significantly differ from actual results.

17. (Losses)/gains on financial assets and liabilities held for trading

(Losses)/gains on financial assets and liabilities held for trading comprise:

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2018 (unaudited)	**2017 (unaudited)**	**2018 (unaudited)**	**2017 (unaudited)**
Net losses from trading securities	(509 600)	(43 989)	(1 415 785)	(251 103)
Net (losses)/gains from foreign exchange, interest based derivatives and translation of other foreign currency assets and liabilities	(863 441)	831 198	(423 025)	2 293 604
(Losses)/gains on financial assets and liabilities held for trading	**(1 373 041)**	**787 209**	**(1 838 810)**	**2 042 501**

18. Fair value of financial instruments

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value on a recurring basis, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

	30 September 2018 (unaudited)		
	Level 1	**Level 2**	**Total**
Financial assets measured at fair value			
Trading securities			
- held by the Group	246 352	14 068 973	14 315 325
Derivative financial assets	-	30 859 287	30 859 287
Derivative financial assets designated for hedging	-	6 483 607	6 483 607
Financial assets at fair value through other comprehensive income			
- held by the Group	34 382 726	43 485 910	77 868 636
- pledged under repurchase agreements	2 970 956	554 592	3 525 548
Total	**37 600 034**	**95 452 369**	**133 052 403**
Financial liabilities measured at fair value			
Financial liabilities held for trading	2 674 144	-	2 674 144
Derivative financial liabilities	-	20 566 031	20 566 031
Derivative financial liabilities designated for hedging	-	15 696 379	15 696 379
Total	**2 674 144**	**36 262 410**	**38 936 554**

(in thousands of Russian Rubles)

18. Fair value of financial instruments (continued)

	31 December 2017		
	Level 1	**Level 2**	**Total**
Financial assets measured at fair value			
Trading securities:			
- held by the Group	2 593 613	17 471 225	20 064 838
- pledged under repurchase agreements	804 699	-	804 699
Derivative financial assets	-	37 985 906	37 985 906
Derivative financial assets designated for hedging	-	7 860 608	7 860 608
Investment securities available-for-sale:			
- held by the Group	23 731 042	52 361 258	76 092 300
- pledged under repurchase agreements	1 254 314	-	1 254 314
Total	**28 383 668**	**115 678 997**	**144 062 665**
Financial liabilities measured at fair value			
Financial liabilities held for trading	12 627 926	13 771 887	26 399 813
Derivative financial liabilities	-	15 658 296	15 658 296
Derivative financial liabilities designated for hedging	-	10 649 841	10 649 841
Total	**12 627 926**	**40 080 024**	**52 707 950**

The table above does not include equity investments at fair value through other comprehensive income in amount of RUB 123 692 thousand (31 December 2017: RUB 119 652 thousand), which do not have a quoted market price in an active market.

During the nine-month periods ended 30 September 2018 and 30 September 2017 there were no changes between fair value levels for trading securities.

During the nine-month period ended 30 September 2018 changes from Level 2 to Level 1 amounted to RUB 5 256 019 thousand for securities at fair value through other comprehensive income (nine-month period ended 30 September 2017: none).

19. Related party disclosures

As at 30 September 2018 the sole shareholder of the Group is the UniCredit S.p.A. UniCredit S.p.A. issues publicly available financial statements.

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be conducted on the same terms, conditions and amounts as transactions between unrelated parties.

As at 1 March 2018, as a result of the transaction between the Group and its sole shareholder UniCredit S.p.A., the Group acquired 40% of capital in BARN B.V. (the Netherlands), that is the sole shareholder of AO “RN Bank” (Russian Federation) since 2013 (see Note 1 and 11 for details). Thus, the relevant transactions with AO “RN Bank” and BARN B.V. are disclosed as transactions with associate for the nine-month period ended 30 September 2018.

(in thousands of Russian Rubles)

19. Related party disclosures (continued)

Balances and transactions with UniCredit S.p.A were as follows:

	30 September 2018 (unaudited)	**Weighted average interest rate, % (unaudited)**	**31 December 2017**	**Weighted average interest rate, %**
Amounts due from credit institutions				
- In Russian Roubles	699 871	7.3%	-	
- In EUR	432 332	0.0%	202 408	0.0%
- In USD	78 243 556	1.9%	142 410 984	3.5%
Derivative financial assets	4 491 836		7 541 866	
Derivative financial assets designated for hedging	3 961 326		6 158 452	
Other assets	360 017		249 000	
Amounts due to credit institutions				
- In Russian Roubles	916 353	0.0%	145 887	0.0%
- In EUR	573 321	1.7%	482 668	1.8%
- In USD	31 686 009	12.4%	27 718 054	11.8%
Derivative financial liabilities	9 294 390		2 893 942	
Derivative financial liabilities designated for hedging	10 796 812		3 952 680	
Other liabilities	515 962		463 601	
Commitments and guarantees issued	5 263 749		5 113 270	
Commitments and guarantees received	21 600 481		35 075 067	

	Three-month period ended 30 September		**Nine-month period ended 30 September**	
	2018 (unaudited)	**2017 (unaudited)**	**2018 (unaudited)**	**2017 (unaudited)**
Interest income and similar revenues	5 622 863	4 989 176	16 385 043	13 703 233
Interest expense and similar charges	(3 915 742)	(2 106 381)	(10 133 194)	(4 994 129)
Fee and commission income	1 788	9 606	29 391	22 783
Fee and commission expense	(48 231)	(176 312)	(240 373)	(513 537)
(Losses)/gains on financial assets and liabilities held for trading	(7 523 777)	2 155 367	(15 715 367)	(2 781 836)
Fair value adjustments in portfolio hedge accounting	1 344 984	(48 455)	1 879 069	(390 985)
Recovery of personnel expenses	12 901	4 208	13 853	9 647
Other administrative expenses	(16 648)	(9 180)	(62 562)	(39 446)

(in thousands of Russian Rubles)

19. Related party disclosures (continued)

Balances and transactions with other companies controlled by the UniCredit Group or related with UniCredit Group are as follows:

	30 September 2018 (unaudited)	Weighted average interest rate, % (unaudited)	31 December 2017	Weighted average interest rate, %
Amounts due from credit institutions				
- In Russian Roubles	1 086 367	0.0%	14 456 718	9.6%
- In EUR	6 175 397	0.0%	9 114 139	0.0%
- In USD	935 947	0.0%	3 513 219	0.0%
- In other currencies	340	0.0%	271	0.0%
Derivative financial assets	2 138 814		1 602 713	
Derivative financial assets designated for hedging	2 094 401		1 488 171	
Loans to customers				
- In Russian Roubles	1 064 497	5.8%	1 219 272	5.8%
Intangible assets	56 696		300 687	
Other assets	18 795		5 318	
Amounts due to credit institutions				
- In Russian Roubles	14 337 566	6.7%	9 634 419	5.4%
- In EUR	7 249 460	1.4%	6 734 240	1.5%
- In USD	1 003 355	3.2%	1 489 534	2.9%
- In other currencies	116	0.0%	102	0.0%
Derivative financial liabilities	3 173 315		3 342 055	
Derivative financial liabilities designated for hedging	1 943 672		2 615 869	
Amounts due to customers				
- In Russian Roubles	580 966	8.1%	542 898	6.4%
- In EUR	-		6 416	0.0%
Other liabilities	328 716		271 403	
Commitments and guarantees issued	36 236 771		8 256 342	
Commitments and guarantees received	4 109 657		5 315 300	

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2018 (unaudited)	2017 (unaudited)	2018 (unaudited)	2017 (unaudited)
Interest income and similar revenues	(75 694)	656 987	(147 014)	2 252 085
Interest expense and similar charges	(700 332)	(647 658)	(1 866 092)	(2 065 819)
Fee and commission income	40 167	35 010	109 011	148 393
Fee and commission expense	(67 837)	(58 240)	(194 952)	(143 178)
Gains on financial assets and liabilities held for trading	636 328	285 370	1 357 968	741 081
Fair value adjustments in portfolio hedge accounting	403 301	(20 090)	381 614	176 625
Other income	122	5 514	364	5 756
Personnel expenses	(13 234)	(3 504)	(20 656)	(13 732)
Other administrative expenses	(51 409)	(48 554)	(157 045)	(142 746)

(in thousands of Russian Rubles)

19. Related party disclosures (continued)

Balances and transactions with associate are as follows:

	30 September 2018 (unaudited)	Weighted average interest rate, % (unaudited)
Amounts due from credit institutions		
- In Russian Roubles	16 945 176	8.6%
Derivative financial assets	2 951	
Amounts due to credit institutions		
- In Russian Roubles	28 373	0.0%
- In EUR	4 854	0.0%
- In USD	1 322	0.0%
Investments in associate	6 725 960	
Commitments and guarantees issued	297 670	

	Three-month period ended 30 September 2018 (unaudited)	Nine-month period ended 30 September 2018 (unaudited)
Interest income and similar revenues	457 820	1 461 145
Interest expense and similar charges	(53 849)	(192 170)
Fee and commission income	13 582	44 101
Gains/(losses) on financial assets and liabilities held for trading	320 878	(186 557)
Share of gains of associate	284 201	730 981

Balances and transactions with key management personnel are as follows:

	30 September 2018 (unaudited)	31 December 2017
Amounts due to customers	328 096	324 714
Other liabilities	63 010	55 106

	Nine-month period ended 30 September 2018 (unaudited)	Nine-month period ended 30 September 2017 (unaudited)
Interest expense	(8 294)	(10 170)
Personnel expenses, including:	(274 478)	(286 793)
short-term benefits	(170 312)	(165 640)
long-term benefits	(102 328)	(119 350)
post-employment benefits	(1 838)	(1 803)

(in thousands of Russian Rubles)

19. Related party disclosures (continued)

Subordinated loans from the members of the UniCredit Group were as follows:

	Nine-month period ended 30 September 2018 (unaudited)	Nine-month period ended 30 September 2017 (unaudited)
	UniCredit S.p.A.	**UniCredit S.p.A.**
Subordinated loans at the beginning of the period	27 718 054	29 178 071
Accrual of interest, net of interest paid	3 728	677
Effect of exchange rates changes	3 842 583	(1 269 576)
Subordinated loans at the end of the period	**31 564 365**	**27 909 172**

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Партнер
АО «Делойт и Туш СНГ»

Неклюдов С.В.