HSBC Bank (RR) LLC

Condensed Interim Financial Information and Report on Review of Condensed Interim Financial Information

30 June 2018

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Report on Review of Condensed Interim Financial Information

To the Sole Participant and Board of Directors of HSBC Bank (RR) LLC:

Introduction

We have reviewed the accompanying condensed interim statement of financial position of HSBC Bank (RR) LLC (the "Bank") as of 30 June 2018, and the related condensed interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed 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 condensed 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 condensed interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

AO PricewaterhouseCoopers Audit

29 August 2018
Moscow, Russian Federation

E. I. Kopanyova, certified auditor (licence no. 01-000398),
AO PricewaterhouseCoopers Audit

Audited entity: HSBC Bank (RR) LLC

State registration certificate No 057.713, issued by the Central Bank of the Russian Federation on 20 May 1996

Registered by the Central Bank of the Russian Federation on 23 April 1996, Registration No. 3290

Certificate of inclusion in the Unified State Register of Legal Entities issued on 2 September 2002 under registration № 1027739139075

Address of audited entity: Paveletskaya sq., 2, bld. 2, Moscow, 115054, Russian Federation

Independent auditor: AO PricewaterhouseCoopers Audit

State registration certificate No. 008.890, issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration No. 1027700148431

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

ORNZ 11603050547 in the register of auditors and audit organizations

In thousands of Russian Roubles	Note	30 June 2018 (Unaudited)	31 December 2017
ASSETS			
Cash and cash equivalents		8 254 862	10 013 442
Mandatory cash balances with the Central Bank of the Russian Federation		555 579	621 078
Trading securities		1 608 102	2 465 862
Due from the Central Bank of the Russian Federation		7 005 263	3 303 500
Due from other banks	6	32 167 281	37 747 228
Derivative financial instruments	7	1 958 014	7 932 550
Loans and advances to customers	8	10 428 661	10 964 555
Investment securities		6 136 354	-
Investment securities available for sale		-	6 263 839
Current income tax prepayment		113 274	31 361
Intangible assets		11 059	11 141
Premises and equipment		39 634	41 913
Other financial assets		2 085 106	721 021
Other assets		91 875	75 355
TOTAL ASSETS		**70 455 064**	**80 192 845**
LIABILITIES			
Trading liabilities		2 089 031	1 558 456
Derivative financial instruments	7	1 623 764	7 731 011
Due to other banks		11 990 202	9 174 801
Customer accounts		40 272 012	46 866 467
Deferred income tax liability		112 081	142 566
Other financial liabilities		359 893	384 550
Other liabilities		241 199	45 177
TOTAL LIABILITIES		**56 688 182**	**65 903 028**
EQUITY			
Charter capital		9 249 232	9 249 232
Additional paid-in capital		3 017 061	3 017 061
Revaluation reserve for investment securities		(20 225)	55 596
Retained earnings		1 520 814	1 967 928
TOTAL EQUITY		**13 766 882**	**14 289 817**
TOTAL LIABILITIES AND EQUITY		**70 455 064**	**80 192 845**

Approved for issue and signed on 29 August 2018.

Malachy McAllister
Chief Executive Officer

Общество с ограниченной ответственностью "Эйч-эс-би-си Банк (РР)" ОГРН 1027739139075 HSBC HSBC Bank (RR) Москва

Elena Koneva
Chief Accountant

The notes set out on pages 5 to 24 form an integral part of this condensed interim financial information.

(Unaudited) *In thousands of Russian Roubles*	Note	Six months ended 30 June 2018	Six months ended 30 June 2017
Interest income		1 733 732	1 926 110
Interest expense		(816 364)	(812 227)
Net interest income		**917 368**	**1 113 883**
Provision for loan impairment of loans and advances to customers and amounts due from other banks	7, 8	3 342	(33 177)
Net interest income after provision for loan impairment		**920 710**	**1 080 706**
Fee and commission income		455 613	449 951
Fee and commission expense		(156 855)	(198 172)
Gains less losses from trading securities		48 270	97 337
Gains less losses from foreign exchange and derivative trading		576 807	758 255
Provision for credit related commitments		(4 955)	-
Other operating income		123 505	97 498
Administrative and other operating expenses	9	(1 243 416)	(987 794)
Profit before tax		**719 679**	**1 297 781**
Income tax expense		(182 892)	(281 945)
PROFIT FOR THE PERIOD		**536 787**	**1 015 836**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Investment securities at fair value through other comprehensive income (before: securities available for sale):			
- (Losses less gains)/Gains less losses arising during the period net of tax		(74 825)	31 844
Other comprehensive (loss)/ income for the period		**(74 825)**	**31 844**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**461 962**	**1 047 680**

The notes set out on pages 5 to 24 form an integral part of this condensed interim financial information.

In thousands of Russian Roubles	**Note**	**Charter capital**	**Additional paid-in capital**	**Revaluation reserve for investment securities (before: securities available for sale)**	**Retained earnings**	**Total equity**
Balance at 1 January 2017		**9 249 232**	**3 017 061**	**20 956**	**1 832 268**	**14 119 517**
Profit for the period		-	-	-	1 015 836	1 015 836
Other comprehensive income		-	-	31 844	-	31 844
Total comprehensive income for the six months ended 30 June 2017 (Unaudited)		**-**	**-**	**34 640**	**1 107 533**	**1 142 173**
Dividends declared	11	-	-	-	(971 873)	(971 873)
Balance at 30 June 2017 (Unaudited)		**9 249 232**	**3 017 061**	**52 800**	**1 876 231**	**14 195 324**
Previously reported balance at 31 December 2017		**9 249 232**	**3 017 061**	**55 596**	**1 967 928**	**14 289 817**
Effect of initial application of IFRS 9		-	-	(996)	(67 330)	(68 326)
Opening balance at 1 January 2018, restated under IFRS 9		**9 249 232**	**3 017 061**	**54 600**	**1 900 598**	**14 221 491**
Profit for the period					536 787	536 787
Other comprehensive income		-	-	(74 825)	-	(74 825)
Total comprehensive income for the six months ended 30 June 2018 (Unaudited)		**-**	**-**	**(74 825)**	**536 787**	**461 962**
Dividends declared	11	-	-	-	(916 571)	(916 571)
Balance at 30 June 2018 (Unaudited)		**9 249 232**	**3 017 061**	**(20 225)**	**1 520 814**	**13 766 882**

The notes set out on pages 5 to 24 form an integral part of this condensed interim financial information.

(Unaudited) *In thousands of Russian Roubles*	**Note**	**Six months ended 30 June 2018**	**Six months ended 30 June 2017**
Cash flows from operating activities			
Interest received		1 197 965	1 793 276
Interest paid		(994 494)	(590 384)
Fees and commissions received		389 457	451 406
Fees and commissions paid		(156 855)	(198 172)
Income received from trading in trading securities		77 263	107 069
Gains less losses from foreign exchange and derivative trading paid		(108 863)	2 704 227
Other operating income received		700 158	65 355
Administrative and other operating expenses paid		(1 050 124)	(1 079 665)
Income tax paid		(260 306)	(282 551)
Cash flows (used in)/from operating activities before changes in operating assets and liabilities		**(205 799)**	**2 970 561**
Net (increase)/decrease in:			
- mandatory cash balances with the CBRF		65 499	29 377
- trading securities		828 767	(2 480 772)
- due from the CBRF		(3 699 709)	526 064
- due from other banks		6 255 661	(7 533 357)
- loans and advances to customers		(448 114)	(3 752 892)
- investment securities available for sale		17 596	(948 082)
- other financial assets		(7 880)	48 817
- other assets		(14 297)	(5 204)
Net increase/(decrease) in:			
- trading liabilities		516 323	3 449 268
- due to other banks		2 820 051	892 952
- customer accounts		(6 914 823)	5 390 169
- other financial liabilities		(159 922)	20 221
- other liabilities		(3 564)	138 202
Net cash used in operating activities		**(950 211)**	**(1 254 676)**
Cash flows from investing activities			
Acquisition of premises and equipment		(5 566)	(656)
Acquisition of intangible assets		(1 313)	(572)
Net cash used in investing activities		**(6 879)**	**(1 228)**
Cash flows from financing activities			
Dividends paid	11	(916 571)	(971 873)
Net cash used in financing activities		**(916 571)**	**(971 873)**
Effect of exchange rate changes on cash and cash equivalents		115 081	(1 119 189)
Net decrease in cash and cash equivalents		**(1 758 580)**	**(3 346 966)**
Cash and cash equivalents at the beginning of the period		10 013 442	11 242 454
Cash and cash equivalents at the end of the period		**8 254 862**	**7 895 488**

The notes set out on pages 5 to 24 form an integral part of this condensed interim financial information.

1 Introduction

This condensed interim financial information for the six months ended 30 June 2018 for HSBC Bank (RR) LLC (the "Bank") has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting".

This condensed interim financial information has been reviewed, not audited.

The Bank was registered in the Russian Federation on 23 April 1996 as a limited liability company. The Bank is 100% owned by HSBC Europe B.V. (Holland). HSBC Europe B.V. (Holland) is a wholly-owned subsidiary of HSBC Bank plc. The ultimate controlling party of the Bank is HSBC Holdings plc ("HSBC Group"). At 30 June 2018 HSBC Holdings plc and HSBC Bank plc had AA- credit rating based on Fitch ratings scale (2017: AA-). The activities of the Bank are coordinated by the requirements of the HSBC Group. As such, the Bank is economically dependent on the HSBC Group. Information on related party transactions is disclosed in Note 15 of the financial statements.

Principal activity. The Bank's principal business activity is commercial banking operations within the Russian Federation. The Bank has operated under a full banking licence № 3290 issued by the Central Bank of the Russian Federation ("CBRF").

The Bank has 1 (2017: 1) branch within the Russian Federation. The Bank had 245 employees at 30 June 2018 (2017: 243 employees).

Registered address and place of business. The Bank's registered address is: bld. 2, 2, Paveletskaya sq., 115054, Moscow, Russian Federation.

Presentation currency. This condensed interim financial information is presented in Russian Roubles ("RR"), unless otherwise stated.

2 Operating Environment of the Bank

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretation.

The Russian economy continues to be negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals, all of which contributed to the country's economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. This operating environment has a significant impact on the Bank's operations and financial position. Management determined loan impairment provisions using the "incurred loss" model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions. Refer to Note 5.

3 Summary of Significant Accounting Policies

Basis of preparation. This condensed interim financial information has been prepared in accordance with IAS 34 "Interim Financial Reporting" and should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

Except as described below, the same accounting policies and methods of computation were followed in the preparation of this condensed interim financial information as compared with the annual financial statements for the year ended 31 December 2017.

Interim period tax measurement. Interim period income tax expense is accrued using the effective tax rate that would be applicable to expected total annual earnings, that is, the estimated weighted average annual effective income tax rate applied to the pre-tax income of the interim period.

3 Summary of Significant Accounting Policies (Continued)

Certain new standards, interpretations and amendments to the existing standards, as disclosed in the financial statements for the year ended 31 December 2017, became effective for the Group from 1 January 2017.

Accounting policies used in the preparation of this interim condensed consolidated financial information are consistent with the policies applied to the Bank's annual consolidated financial statements for the year ended 31 December 2017, except for the changes resulting from the adoption of new and/or revised standards and interpretations that came into effect from 1 January 2018 or any other specified date, as described below. The Bank did not early adopt any other standards or interpretations that were issued but did not become effective.

The nature and effect of each new standard or interpretation are described below.

IFRS 9 "Financial Instruments" (amended in July 2014)

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" for annual reporting periods beginning on or after 1 January 2018. The Bank used the optional exemption from restating comparative figures for track record periods relating to classification and valuation, including impairment. The Bank did not restate its 2017 comparatives for financial instruments under IFRS 9.

Therefore, comparatives for 2017 are reported under IAS 39 and cannot be compared to information for six months ended 30 June 2018.

Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 were mostly recognised in the opening balance of retained earnings and provisions as at 1 January 2018.

(a) Classification and measurement

Under IFRS 9, financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income and those to be measured subsequently at fair value through profit or loss.

The following assessments were made on the basis of facts and circumstances available at the date of the initial adoption:

- assessment of business model for holding a group of financial assets;

Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (the criterion of "only payments of principal and interest on the outstanding principal amount» (SPPI).

Those debt financial instruments, which meet the SPPI criterion, are classified at initial recognition on the basis of business model which is used to manage these instruments:

- instruments held to collect contractual cash flows are measured at amortised cost;
- instruments held to collect contractual cash flows and to sell are classified as at fair value through other comprehensive income;

Instruments held for other purposes are classified as at fair value through profit or loss.

3 Summary of Significant Accounting Policies (Continued)

All debt financial assets that do not meet the criterion of "only payments of principal and interest on the outstanding principal amount» (SPPI) are classified as financial assets at fair value through profit or loss at initial recognition. Under this criterion, debt instruments that do not meet the definition of “basic lending arrangement”, such as instruments with embedded conversion option or loans without recourse, are assessed at fair value through profit or loss. Securities classified as at fair value through profit or loss under IAS 39 have been classified within debt securities at fair value through profit or loss and carried at fair value through profit or loss because they are not held to collect contractual cash flows and sell.

Loans and advances to customers that meet the SPPI criterion are held to collect contractual cash flows and are carried at amortised cost. Loans and advances to customers that do not meet the SPPI criterion are held to collect contractual cash flows, however, as the underlying lending arrangements contain terms and conditions that may affect the contractual cash flows are carried at fair value through profit or loss.

Classification and measurement of financial liabilities remain generally unchanged as compared to the current requirements of IAS 39.

Derivatives will continue to be carried at fair value through profit or loss.

(b) Impairment

IFRS 9 adoption has changed the Bank’s approach to assessment of loan impairment losses. Instead of the incurred loss approach required by IAS 39, the new forward-looking approach that requires recognition of expected credit losses (ECL) is adopted. Since 1 January 2018, the Bank has recognised an ECL allowance for all loans and other debt financial assets that are not classified as at fair value through profit or loss and for credit commitments and financial guarantee contracts (together referred to as “financial instruments” in this section). IFRS 9 impairment requirements do not affect equity financial instruments.

ECL allowance is estimated as the sum total of credit losses that are expected to be incurred over the whole lifetime of an asset (lifetime ECL), if the credit risk for this financial asset has significantly increased after its initial recognition. Otherwise, the ECL allowance will be estimated in the amount equal to expected credit losses for 12 months. Twelve-month ECLs constitute a part of the lifetime ECLs and represent ECLs incurred as a result of events of default on a financial instrument that are possible during 12 months after the reporting date. Lifetime ECLs and 12-month ECLs are calculated on an individual or collective basis depending on the nature of the financial instrument portfolio.

The Bank has adopted a policy for assessing a significant increase in credit risk on a financial instrument at the end of each reporting period from its initial recognition by analysing the changes in risk of default over the remaining lifetime of the financial instrument. According to this policy the Bank classifies financial instruments into the following categories: Stage 1, Stage 2, Stage 3 and Purchased or Originated Credit Impaired (POCI).

- **Stage 1:** At initial recognition of a loan the Bank recognises impairment provision in the amount of 12-month ECLs. Stage 1 also includes financial instruments without any significant increase in credit risk since initial recognition. Stage 1 also incorporates financial instruments, for which credit risk decreased to such extent that they have been transferred from Stage 2. 12-month ECLs are recognised for such assets with interest income calculated on the basis of the asset’s gross carrying value.

- **Stage 2:** Stage 2 includes financial instruments with a significant increase in credit risk since initial recognition. Stage 2 also comprises financial instruments, for which credit risk decreased to such extent that they have been transferred from Stage 3. The Bank recognises impairment provision equal to lifetime ECLs for such assets with interest income calculated on the basis of the asset’s gross carrying value.

3 Summary of Significant Accounting Policies (Continued)

- **Stage 3:** Stage 3 includes financial instruments with objective impairment indicators identified at the reporting date (credit-impaired assets).

The Bank recognises impairment provision equal to lifetime ECLs for such assets with interest income calculated on the basis of the asset's net book value given the effect of the discounted cash flows on loans.

- **POCI** assets represent financial instruments which are credit impaired at initial recognition.

Such assets are carried at fair value at initial recognition with interest income subsequently recognised on the basis of credit-adjusted effective interest rate. ECL allowance is recognised or recovered only if there are subsequent significant changes in expected credit losses and to the extent that the amount of ECLs has changed.

The model includes operational simplifications for lease and trade receivables.

If the Bank has no valid expectations for full or partial recovery of the financial asset, gross carrying value of such financial asset should be reduced. Such reduction represents (partial) derecognition of the financial asset.

IFRS 9 establishes specific rules for estimating loss allowances and recognising interest income on purchased and originated assets that were credit-impaired already at initial recognition (purchased or originated credit-impaired financial assets, or POCI assets). There were no impairment provisions for POCI assets upon initial recognition. Instead, lifetime expected credit losses on a financial instrument are incorporated in the calculation of effective interest rate. The amount reflecting positive changes in lifetime expected credit losses on a financial asset is recognised as impairment gain, even if it exceeds the amount earlier recorded in profit or loss as impairment loss. This presentation differs from the procedure set out in IAS 39, where impairment provisions can only be recovered to the extent of impairment loss earlier recorded in profit or loss.

(c) Staging criteria

An assessment is performed at each reporting date to identify a significant increase in credit risk since initial recognition of a financial instrument. Such assessment is performed on the basis of qualitative and quantitative information:

- Quantitative assessment is performed on the basis of a change in risk of default arising over the expected lifetime of a financial asset.

- Qualitative assessment implies that a number of factors are important for assessing significant increase in credit risk (restructuring indicative of problems, establishing favourable schedule for repaying loan interest and principal, significant changes in expected results of operations and behaviour of a borrower and other material changes).

Loans move from Stage 1 to Stage 2 if there is one or a combination of the following factors:

- loans are over 30 days overdue;

- internal credit rating deteriorates;

- there are early warning indicators of an increase in credit risk; a need to change previously agreed on terms of the loan agreement to create more favourable environment for a customer due to his inability to meet current liabilities because of the customer's financial position; full or partial refinancing of the current debt which would not be required if the client did not experience financial difficulties;

3 Summary of Significant Accounting Policies (Continued)

(d) Default identification process

A default is recognised if one or a combination of the following events occur:

- loans are over 90 days overdue (a rebuttable presumption);
- a default rating is assigned;
- restructuring indicative of problems is undertaken;
- a favourable schedule for repaying loan interest and principal with payments to be made at the end of the term is granted.

(e) ECL calculation methodology

The ECL calculation technique is described below and involves the use of the following key parameters:

Probability of default (PD). This parameter reflects the estimated probability that a default will occur during a certain period of time. The default may occur only at a certain point in time within the considered period provided that the financial asset has not been derecognised before and such asset is still included in the portfolio.

Exposure at default (EAD). This parameter reflects the estimated risk at the date of default in future after considering the expected changes in risk after the reporting date, including repayment of principal and interest as scheduled in the contracts or at any other time, expected credit line drawdowns and amounts of interest accrued on overdue payments. For off-balance sheet items (guarantees issued, letters of credit, unused credit lines), the total amount of exposure is equal to the risk before credit conversion factors (CCF). The credit conversion factor represents a proportion of the current unused amount which will be utilised within 12 months before the default (applied to off-balance sheet items).

Loss given default (LGD). This parameter reflects the estimated amount of loss arising in case of default at a certain point in time. Since this parameter is affected by the macroeconomic environment, the level of loss at default is actually dependent on the period of time. Depending on the available information on the level of loss, different LGD models are applied. If there is sufficient information on the level of loss, this parameter is estimated by comparing EAD to discounted cash flows (Workout LGD). If such information is limited external data can be used (Implied Market LGD).

Impairment losses and impairment recoveries are recognised and disclosed separately from profit or loss from modification of impairment recorded as an adjustment to the carrying value of a financial asset

In estimating impairment, the Bank uses forward-looking information based on the macroeconomic models resulting in direct adjustment of the probability of default. Since the Bank does not know with certainty whether such macroeconomic parameters will materialise in future, the scenario cannot be calculated due to uncertainty factors.

The Bank calculates ECL on an individual basis for a number of watch list loans based on several probability-weighted scenarios (base, best case and worst case) to estimate the expected amount of unreceived cash discounted at the effective interest rate. Such unreceived cash represents a difference between cash flows which an entity was entitled to under the contract and cash flows that the entity expects to receive.

(f) Effects of transition to IFRS 9

The tables below present the impact of IFRS 9 adoption on the statement of financial position and retained earnings at 1 January 2018, including the effect of transition from the incurred loss model used under IAS 39 to the expected credit loss model required by IFRS 9.

3 Summary of Significant Accounting Policies (Continued)

The following table reconciles the carrying amounts of financial assets, from their previous measurement categories in accordance with IAS 39 into their new measurement categories upon transition to IFRS 9 on 1 January 2018:

- AC (L&R) – Amortized costs Loans and receivables;
- FVPL – Fair Value through Profit or Loss;
- FVOCI – Fair Value through Other Comprehensive Income;
- ECL – Expected Credit Loss.

In thousands of Russian Roubles	**IAS 39 Measure-ment Category**	**IFRS 9 Measure-ment Category**	**IAS 39 Carrying Amount as at 31 December 2017**	**Remeasure-ment and IFRS 9 Expected Credit Losses**	**IFRS 9 Carrying Amount as at 1 January 2018**
Cash and Balances at Central Banks	AC (L&R)	AC	13 938 020	(326)	13 937 694
Trading Assets	FVPL	FVPL	2 465 862	-	2 465 862
Derivatives	FVPL	FVPL	7 932 550	-	7 932 550
Loans & Advances to Banks	AC (L&R)	AC	37 747 228	(24 497)	37 722 731
Loans & Advances to Customers	AC (L&R)	AC	10 964 555	24 996	10 989 551
Debt Instruments Available for Sale	FVOCI (AFS)	FVOCI	6 263 839	(1 246)	6 262 593
Prepayments, Accrued Income & Other Assets	AC (L&R)	AC	796 376	(2 007)	794 369
Off balance sheet accounts (guarantees)	AC (L&R)	AC	62 476 005	(82 328)	62 393 677
Total effect				**(85 408)**	

No significant changes are applicable to financial liabilities, other than changes in the fair value of financial liabilities designated at FVPL that are attributable to changes in the instrument's credit risk, which is presented in other comprehensive income.

The impact of IFRS 9 adoption on retained earnings is presented below:

(In thousands of Russian Roubles)	**Retained earnings**
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	**1 967 928**
ECL recognition for assets at amortised cost under IFRS 9	(1 834)
ECL recognition for credit related commitments	(82 328)
Deferred tax related to the above	16 832
Opening balance restated under IFRS 9 (1 January 2018)	**1 900 598**
Total change in equity from applying IFRS 9 requirements	**(68 326)**

3 Summary of Significant Accounting Policies (Continued)

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Bank is currently assessing the impact of the new standard on its financial statements.

The following amended standards became effective for the Bank from 1 January 2017, but did not have any material impact on the Bank:

- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4, Insurance Contracts (issued on 12 September 2016 and effective for annual periods beginning on or after 1 January 2018).
- Annual Improvements to IFRSs 2014-2016 cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018 for amendments to IFRS 1 and IAS 28).
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- *Amendments to IAS 40 “Transfers of Investment Property”* (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

4 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Bank has not early adopted.

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Bank is currently assessing the impact of the new standard on its financial statements.

4 New Accounting Pronouncements (Continued)

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Bank is currently assessing the impact of the interpretation on its financial statements.

The following other new pronouncements are not expected to have any material impact on the Bank when adopted:

- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).

- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).

- Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Bank's financial statements.

5 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

Estimates and judgements were consistent with those made in the annual financial statements for the year ended 31 December 2017:

Impairment losses on loans and advances. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the period, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management determined loan impairment provisions using the "estimated credit loss model" required by the applicable accounting standards. Refer to Note 3 for the detailed description of the ECL estimation methodology.

5 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Fair value of derivatives and certain other instruments. Information about fair values of instruments that were valued using assumptions that are not based on observable market data is disclosed in Note 14.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 10.

Initial recognition of related party transactions. In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 15.

6 Due from Other Banks

In thousands of Russian Roubles	**30 June 2018 (Unaudited)**	**31 December 2017**
Reverse Repo	22 886 813	19 867 570
Placements with other banks	8 289 827	17 879 658
Settlements	1 006 346	-
Impairment provision	(15 705)	-
Total due from other banks	**32 167 281**	**37 747 228**

Movements in the Impairment provision for due from other banks during the six months ended 30 June 2018 and 30 June 2017 are as follows:

(Unaudited) *In thousands of Russian Roubles*	**Six months ended 30 June 2018**	**Six months ended 30 June 2017**
Impairment provision for due from other banks at 1 January	**24 497**	**-**
Impairment provision during the period	(8 792)	-
Impairment provision for due from other banks at 30 June	**15 705**	**-**

At 30 June 2018 the Bank had balances with two counterparty banks (2017: two banks) whose balance exceeds 10% of due from other banks. The total aggregate amount of these balances was RR 28,188,143 thousand (2017: RR 30 378 353 thousand) or 87.6% of the total amount due from other banks (2017: 80.5%).

At 30 June 2018 the Bank has a right to sell or repledge securities with a fair value of RR 22 886 813 thousand received under reverse repo agreements.

7 Derivative financial instruments

In thousands of Russian Roubles	**30 June 2018 (Unaudited)**	**31 December 2017**
Derivative financial instruments – assets		
Forward exchange contracts	843 365	6 392 384
Cross-currency interest rate swaps	870 766	1 244 582
Interest rate swaps	42 904	10 980
Options	200 979	284 604
Total derivative financial instruments – assets	**1 958 014**	**7 932 550**
Derivative financial instruments – liabilities		
Foreign currency contracts	(511 787)	(6 178 446)
Cross-currency interest rate swaps	(879 133)	(1 265 448)
Interest rate swaps	(31 865)	(2 424)
Options	(200 979)	(284 693)
Total derivative financial instruments – liabilities	**(1 623 764)**	**(7 731 011)**

8 Loans and Advances to Customers

In thousands of Russian Roubles	**30 June 2018 (Unaudited)**	**31 December 2017**
Corporate loans	10 461 692	11 004 349
Loans to individuals	27 033	39 808
Less: provision for loan impairment	(60 064)	(79 602)
Total loans and advances to customers	**10 428 661**	**10 964 555**

Movements in the provision for loan impairment during the six months ended 30 June 2018 and 30 June 2017 are as follows:

(Unaudited) *In thousands of Russian Roubles*	**Six months ended 30 June 2018**	**Six months ended 30 June 2017**
Provision for loan impairment at 1 January	**54 614**	**58 110**
Provision for loan impairment during the period	5 450	33 177
Provision for loan impairment at 30 June	**60 064**	**91 287**

At 30 June 2018 the Bank had three borrowers (2017: three borrowers) with aggregated loan amounts exceeding 10% of loans and advances to customers. The total aggregate amount of these loans was RR 4 151 172 thousand (2017: RR 4 114 021 thousand) or 39.6 % of the gross loan portfolio (2017: 37.3 %).

8 Loans and Advances to Customers (Continued)

The table below shows changes in credit loss allowance and gross carrying value of loans and advances during six months ended 30 June 2018:

	Gross carrying value				Expected credit loss allowance under IFRS 9			
(Unaudited) *(In thousands of Russian roubles)*	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Corporate loans								
At 1 January 2018	**8 694 922**	**1 656 079**	**693 156**	**11 044 157**	**(26 049)**	**(28 565)**	**-**	**(54 614)**
Changes affecting expected credit loss allowance for the period:								
Transfers from Stage 1 to Stage 2	(268 738)	268 738	-	-	236	(236)	-	-
Transfers from Stage 1 and Stage 2 to Stage 3	-	-	-	-	-	-	-	-
Transfers from Stage 2 and Stage 3 to Stage 1	127 547	(127 547)	-	-	(1 814)	1 814	-	-
New assets obtained or acquired	13 893 840	-	-	13 893 840	(31 417)	-	-	(31 417)
Assets repaid or derecognised (other than write-offs)	(11 191 314)	(817 643)	-	(12 008 957)	12 749	3 092	-	15 841
Other changes	(2 457 366)	(21 433)	38 484	(2 440 315)	9 439	687	-	10 126
At 30 June 2018	**8 798 891**	**958 194**	**731 640**	**10 488 725**	**(36 856)**	**(23 208)**	**-**	**(60 064)**

8 Loans and Advances to Customers (Continued)

Economic sector risk concentrations within the loans and advances to customers are as follows:

	30 June 2018 (Unaudited)		31 December 2017	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Food and agricultural	5 860 344	55,9	4 319 435	39,1
Manufacturing	2 511 945	23,9	3 304 848	29,9
Trade	1 282 576	12,2	2 794 251	25,3
Construction	440 448	4,2	427 870	3,9
Consulting	366 379	3,5	151 222	1,4
Finance	-	-	6 723	0,1
Loans to individuals	27 033	0,3	39 808	0,3
Total loans and advances to customers (before provision for loan impairment)	**10 488 725**	**100,0**	**11 044 157**	**100,0**

Information about collateral at 30 June 2018 is as follows:

(Unaudited) *In thousands of Russian Roubles*	**Corporate loans**	**Loans to individuals**	**Total**
Unsecured loans	3 570 932	-	3 570 932
Loans guaranteed by HSBC Bank plc	4 605 810	-	4 605 810
Loans guaranteed by Russian banks and foreign companies	2 224 886	-	2 224 886
Loans collateralised by:			
- residential real estate	-	27 033	27 033
Total loans and advances to customers	**10 401 628**	**27 033**	**10 428 661**

Information about collateral at 31 December 2017 is as follows:

In thousands of Russian Roubles	**Corporate loans**	**Loans to individuals**	**Total**
Unsecured loans	2 846 613	-	2 846 613
Loans guaranteed by HSBC Bank plc	5 596 239	-	5 596 239
Loans guaranteed by Russian banks and foreign companies	2 481 895	-	2 481 895
Loans collateralised by:			
- residential real estate	-	39 808	39 808
Total loans and advances to customers	**10 924 747**	**39 808**	**10 964 555**

Other assets mainly include equipment and receivables. The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

8 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 30 June 2018 is as follows:

(Unaudited) *In thousands of Russian Roubles*	**Corporate loans**	**Loans to individuals**	**Total**
Neither past due nor impaired			
- CRR 1	103 232	-	103 232
- CRR 2	2 738 075	-	2 738 075
- CRR 3	5 195 986	-	5 195 986
- CRR 4	1 562 858	-	1 562 858
- CRR 5	124 561	-	124 561
- CRR 6	-	27 033	27 033
Total neither past due nor impaired	**9 724 712**	**27 033**	**9 751 745**
Loans individually determined to be impaired (gross)			
- 181 to 360 days overdue	736 980	-	736 980
Total individually impaired loans	**736 980**	**-**	**736 980**
Less: provision for loan impairment	**(58 563)**	**(1 501)**	**(60 064)**
Total loans and advances to customers	**10 403 129**	**25 532**	**10 428 661**

Analysis by credit quality of loans outstanding at 31 December 2017 is as follows:

In thousands of Russian Roubles	**Corporate loans**	**Loans to individuals**	**Total**
Neither past due nor impaired			
- CRR 1	317 572	-	317 572
- CRR 2	6 451 796	-	6 451 796
- CRR 3	3 079 626	-	3 079 626
- CRR 4	1 052 611	-	1 052 611
- CRR 5	34 833	-	34 833
- CRR 6	-	39 808	39 808
- CRR 8	67 911	-	67 911
Total neither past due nor impaired	**11 004 349**	**39 808**	**11 044 157**
Less: provision for loan impairment	**(79 602)**	**-**	**(79 602)**
Total loans and advances to customers	**10 924 747**	**39 808**	**10 964 555**

9 Administrative and Other Operating Expenses

(Unaudited) *In thousands of Russian Roubles*	**Six months ended 30 June 2018**	**Six months ended 30 June 2017**
Staff costs	683 127	598 472
Legal proceedings	221 295	-
Professional services	98 881	97 359
Rent	69 622	74 947
IT systems development	43 831	69 275
Information and telecommunication services	32 604	48 383
Cash collection	24 535	24 791
Repair and maintenance	20 714	19 584
Travel	14 307	14 489
Office suppliers	12 561	12 404
Depreciation of premises and equipment	7 845	3 386
Security	4 031	3 057
Marketing	1 700	1 113
Charity and donations	1 581	6 267
Amortisation of software and other intangible assets	1 395	1 244
Other	5 387	13 023
Total administrative and other operating expenses	**1 243 416**	**987 794**

In the period ended 30 June 2018, a litigation provision in the amount of RR 221 295 thousand was recognised for possible voluntary settlements under a bankruptcy case against one of the Bank's customers.

10 Income Taxes

Interim period income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate applied for the six months ended 30 June 2018 is 26% (the estimated tax rate for the six months ended 30 June 2017 was 22%). The lower rate in 2017 is explained by prior years adjustments made in 2017.

11 Dividends

A dividend relating to the year ended 31 December 2016 amounting to RR 971 873 thousand were paid in December 2017.

A dividend relating to the year ended 31 December 2017 amounting to RR 916 571 thousand were paid in June 2018.

12 Contingencies and Commitments

***Legal proceedings*.** From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and both internal professional advice management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in this financial information.

Tax contingencies. Russian tax and customs legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Bank. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged by tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods.

12 Contingencies and Commitments (Continued)

The Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organization for Economic Cooperation and Development. This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not on an arm's length basis. Management has implemented internal controls to be in compliance with this transfer pricing legislation.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Bank.

As Russian tax legislation does not provide definitive guidance in certain areas, the Bank adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Bank. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. In general, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Bank.

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 Bank 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 Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. 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 Bank 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. Outstanding credit related commitments are as follows:

In thousands of Russian Roubles	**30 June 2018 (Unaudited)**	**31 December 2017**
Undrawn credit lines that are irrevocable or are revocable only in response to a material adverse change	60 325 048	44 727 837
Financial guarantees issued	17 593 436	16 699 053
Letters of credit	1 963 027	2 325 195
Performance guarantees	4 645 369	6 165 120
Less: Commitment collateralised by cash deposits	(24 780)	(24 780)
Less: Provisions	(87 283)	-
Total credit related commitments, net of provision and cash covered exposures	**84 414 817**	**69 892 425**

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.

13 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

The Management Board of the HSBC Group formulates high level HSBC Group risk management policy under the authority delegated by the Board of Directors. A separately convened Risk Management Meeting of the HSBC Group Management Board monitors risk and receives reports which allow it to review the effectiveness of HSBC's risk management policies, which are delegated to the HSBC entities. The Board of Directors has overall responsibility for the oversight of the risk management framework delegated from the HSBC Group, overseeing the management of key risks and reviewing its risk management policies and procedures in accordance with the HSBC Group's requirements.

The Management Committee of the Bank is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Risk Department was not subordinated to, and did not report to, divisions accepting relevant risks in accordance with regulations and recommendations issued by the CBR. The Head of the Risk Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. The Head of the Risk Department reports to the CEO, the Board of Directors and to the Regional (European) Chief Risk Officer.

Market, credit and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of a Credit Committee, a Risk Management Committee and an Asset and Liability Management Committee (the "ALCO").

Both external and internal risk factors are identified and managed throughout the Bank's organisational structure.

Capital management.

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the CBRF, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least 8%.

Under the current capital requirements set by the CBRF, banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. The Bank determines regulatory capital based on requirements set by the CBRF Regulation 395-P. The Bank provides the territorial CBRF that supervises the Bank with information on mandatory ratios in accordance with set form. The Financial Department of the Bank controls on a daily basis compliance with capital adequacy ratios. In case values of capital adequacy ratios become close to limits set by the CBRF and the Bank's internal policy this information is communicated to the Management Board and the Board of Directors.

14 Fair Value of Financial Instruments

(a) Fair values of financial instruments carried at amortised cost.

At the periods ended 30 June 2018 and 31 December 2017 management concluded that the fair values of its financial assets and financial liabilities not measured at fair value are not materially different from their carrying values due to their short-term nature or contractual right of re-pricing.

(b) Analysis by fair value hierarchy of financial instruments carried at fair value.

For financial instruments carried at fair value, the level in the fair value hierarchy into which the fair values are categorised at 30 June 2018:

(Unaudited) *In thousands of Russian Roubles*	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets at fair value				
FINANCIAL ASSETS				
Trading securities	1 574 358	-	-	1 574 358
Derivative financial instruments	-	2 302 581	33 903	2 336 484
Investment securities				
- Investment securities at fair value through other comprehensive income	6 136 354	-	-	6 136 354
Total assets recurring fair value measurements	**7 710 712**	**2 302 581**	**33 903**	**10 047 196**
Liabilities carried at fair value				
Financial liabilities				
Trading liabilities	2 042 271	-	-	2 042 271
Derivative financial instruments	-	1 993 902	33 903	2 027 805
Total liabilities recurring fair value measurements	**2 042 271**	**1 993 902**	**33 903**	**4 070 076**

The level in the fair value hierarchy into which the fair values are categorised at 31 December 2017:

In thousands of Russian Roubles	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets at fair value				
FINANCIAL ASSETS				
Trading securities	2 465 862	-	-	2 465 862
Derivative financial instruments	-	7 866 492	66 058	7 932 550
Investment securities	6 263 839	-	-	6 263 839
- Investment securities at fair value through other comprehensive income	6 263 839	-	-	6 263 839
Total assets recurring fair value measurements	**8 729 701**	**7 866 492**	**66 058**	**16 662 251**
Liabilities carried at fair value				
Financial liabilities				
Trading liabilities	1 558 456	-	-	1 558 456
Derivative financial instruments	-	7 664 953	66 058	7 731 011
Total liabilities recurring fair value measurements	**1 558 456**	**7 664 953**	**66 058**	**9 289 467**

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

14 Fair Value of Financial Instruments (Continued)

Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(c) Reconciliation of movements in instruments belonging to level 3 of the fair value hierarchy.

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments is as follows for the six months ended 30 June 2018:

(Unaudited) *In thousands of Russian Roubles*	**Financial derivative assets**	**Financial derivative liabilities**
Fair value at 1 January 2018	**66 058**	**(66 058)**
Gains or losses recognised in profit or loss for the period	(32 155)	32 155
Fair value at 30 June 2018	**33 903**	**(33 903)**
Unrealised revaluation gains less losses recognised in profit or loss for the period for assets held at 30 June 2018	**33 903**	**(33 903)**

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments is as follows for the six months ended 30 June 2017:

(Unaudited) In thousands of Russian Roubles	**Financial derivative assets**	**Financial derivative liabilities**
Fair value at 1 January 2017	**22 222**	**(22 222)**
Gains or losses recognised in profit or loss for the period	(18 633)	18 633
Transfers into level 3	70 887	(70 887)
Fair value at 30 June 2017	**74 476**	**(74 476)**
Unrealised revaluation gains less losses recognised in profit or loss for the period for assets held at 30 June 2017	**74 476**	**(74 476)**

15 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can 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.

The parent company of the Bank is HSBC Europe BV, the Netherlands, which is 100% owned by HSBC Bank plc, the United Kingdom. The ultimate controlling party of the Bank is HSBC Holdings plc, the United Kingdom. Financial statements of HSBC Holdings plc ("HSBC Group") are publicly available.

At 30 June 2018, the outstanding balances with related parties were as follows:

(Unaudited) *In thousands of Russian Roubles*	**Parent**	**Companies under common control**
Cash and cash equivalents	252 742	605 373
Due from other banks (contractual interest rate: 0-0.56%)	5 330 054	1 006 346
Derivative financial instruments – assets	1 574	-
Other financial assets	112 069	-
Derivative financial instruments – liabilities	320 140	-
Due to other banks (contractual interest rate: 8.25%)	870 630	268 538
Other financial liabilities	59 970	22 933

The income and expense items with related parties for the six months ended 30 June 2018 were as follows:

(Unaudited) *In thousands of Russian Roubles*	**Parent**	**Companies under common control**
Interest income	50 026	2 205
Interest expense	-	(179 491)
Gains less losses from foreign exchange and derivative trading	1 203 588	110 000
Fee and commission income	7 037	9 287
Fee and commission expense	11 855	(45 008)
Commission expense on guarantees treated as direct costs on loans issuance	(76 744)	-
Other operating income	100 422	-
Administrative and other operating expenses	(81 694)	163 388

Error! Reference source not found. **Related Party Transactions (Continued)**

At 30 June 2018, other rights and obligations with related parties were as follows:

(Unaudited) *In thousands of Russian Roubles*	**Parent**	**Companies under common control**
Guarantees issued by the Bank at the period end	-	7 247 076
Guarantees received by the Bank at the period end	3 416 989	324 610
Overdraft limit on correspondent accounts of other banks	2 000 000	2 656 783

At 30 June 2017, the outstanding balances with related parties were as follows:

In thousands of Russian Roubles	**Parent**	**Companies under common control**
Cash and cash equivalents	514 535	345 840
Due from other banks (contractual interest rate: 0-0.56%)	14 550 360	1 648 349
Derivative financial instruments – assets	2 036	-
Other financial assets	79 400	-
Derivative financial instruments – liabilities	8 079 198	-
Due to other banks (contractual interest rate: 8.25%)	343 761	75 936
Other financial liabilities	12 539	37 360

The income and expense items with related parties for 30 June 2017 were as follows:

(Unaudited) *In thousands of Russian Roubles*	**Parent**	**Companies under common control**
Interest income	31 500	1 266
Interest expense	-	(6 706)
Gains less losses from foreign exchange and derivative trading	(3 776 696)	5 483
Fee and commission income	6 591	4 904
Fee and commission expense	(4)	(99 497)
Commission expense on guarantees treated as direct costs on loans issuance	(59 898)	-
Other operating income	95 649	-
Administrative and other operating expenses	(66 844)	(57 587)

At 30 June 2017, other rights and obligations with related parties were as follows:

In thousands of Russian Roubles	**Parent**	**Companies under common control**
Guarantees issued by the Bank at the period end	33 653	1 009 665
Guarantees received by the Bank at the period end	1 609 120	274 228
Letter of credit issued by the Bank at the period end	-	489 684
Overdraft limit on correspondent accounts of other banks	2 000 000	3 300 000

Key management compensation is presented below:

In thousands of Russian Roubles	**Six months ended 30 June 2018 (Unaudited)**	**Six months ended 30 June 2017 (Unaudited)**
Short-term benefits:		
- Salaries	73 140	68 037
- Bonuses and other benefits	89 263	93 143
- Social security costs	1 906	1 733
Total remuneration	**164 309**	**162 913**