

Report on Review of Interim Financial Information  
***Joint stock company Russian Agricultural Bank  
and its subsidiaries***  
for the nine-month period ended 30 September 2017

*November 2017*

**Report on Review of Interim Financial Information**  
**Joint stock company Russian Agricultural Bank and its subsidiaries**

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## Report on Review of Interim Financial Information

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

### **Introduction**

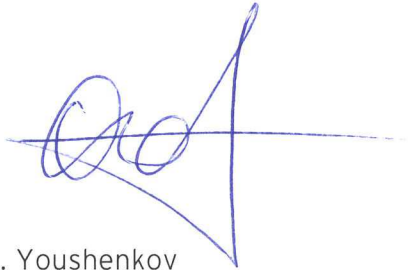
We have reviewed the accompanying interim condensed consolidated financial statements of Joint stock company Russian Agricultural Bank and its subsidiaries, which comprise the interim consolidated statement of financial position as at 30 September 2017, the interim consolidated statement of profit or loss and other comprehensive income for the three-month and nine-month periods then ended, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the nine-month period then ended, and selected explanatory notes (interim financial information). Management of Joint stock company Russian Agricultural Bank is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

### **Scope of review**

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

### **Conclusion**

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



O.V. Youshenkov  
Partner  
Ernst & Young LLC

23 November 2017

### **Details of the entity**

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

### **Details of the auditor**

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


**Russian Agricultural Bank Group**  
**Interim Consolidated Statement of Financial Position**  
**as at 30 September 2017**

| <i>In millions of Russian Roubles</i>                                   | Note | 30 September<br>2017<br>(unaudited) | 31 December<br>2016 |
|---|------|-------------------------------------|---------------------|
| <b>Assets</b>   |      |                                     |                     |
| Cash and cash equivalents   |      | 287 719                             | 326 033             |
| Mandatory cash balances with the Central Bank of the Russian Federation |      | 17 413                              | 11 266              |
| Trading securities  |      | 26 440                              | 25 040              |
| Financial instruments designated at fair value through profit or loss   |      | 1 994                               | 2 374               |
| Due from other banks  |      | 60 932                              | 55 491              |
| Derivative financial instruments  | 17   | 77 220                              | 120 062             |
| Loans and advances to customers   | 5    | 1 779 238                           | 1 617 937           |
| Investment securities available for sale                                |      | 272 877                             | 232 409             |
| Investment securities held to maturity                                  |      | 47 162                              | 11 630              |
| Current income tax assets   |      | 363                                 | 371                 |
| Deferred income tax asset   |      | 16 289                              | 16 298              |
| Intangible assets   |      | 3 503                               | 3 048               |
| Premises and equipment  |      | 17 937                              | 16 188              |
| Other assets  |      | 44 034                              | 21 294              |
| Assets of the disposal groups held for sale and assets held for sale    |      | 2 946                               | 3 088               |
| <b>Total assets</b>   |      | <b>2 656 067</b>                    | <b>2 462 529</b>    |
| <b>Liabilities</b>  |      |                                     |                     |
| Derivative financial instruments  | 17   | 3 975                               | 1 053               |
| Due to other banks  | 7    | 57 826                              | 78 594              |
| Customer accounts   | 8    | 1 901 756                           | 1 577 767           |
| Promissory notes issued   |      | 30 637                              | 13 761              |
| Bonds issued  | 9    | 324 685                             | 455 884             |
| Current income tax liability  |      | 198                                 | 19                  |
| Deferred income tax liability   |      | 312                                 | 239                 |
| Other liabilities   |      | 20 243                              | 16 276              |
| Liabilities directly associated with disposal groups held for sale      |      | 987                                 | 1 193               |
| <b>Total liabilities before subordinated debts</b>                      |      | <b>2 340 619</b>                    | <b>2 144 786</b>    |
| Subordinated debts  |      | 137 247                             | 153 124             |
| <b>Total liabilities</b>  |      | <b>2 477 866</b>                    | <b>2 297 910</b>    |
| <b>Equity</b>   |      |                                     |                     |
| Share capital   |      | 365 598                             | 335 598             |
| Perpetual bonds   | 10   | 15 000                              | 15 000              |
| Revaluation reserve for premises  |      | 1 057                               | 1 092               |
| Revaluation reserve for investment securities available for sale        |      | 3 019                               | 5 740               |
| Accumulated loss  |      | (206 458)                           | (192 807)           |
| <b>Equity attributable to the Bank's shareholder</b>                    |      | <b>178 216</b>                      | <b>164 623</b>      |
| <b>Non-controlling interest</b>   |      | <b>(15)</b>                         | <b>(4)</b>          |
| <b>Total equity</b>   |      | <b>178 201</b>                      | <b>164 619</b>      |
| <b>Total liabilities and equity</b>                                     |      | <b>2 656 067</b>                    | <b>2 462 529</b>    |

Approved for issue and signed on behalf of the Management Board on 23 November 2017.

  
D.N. Patrushev  
Chairman of the Management Board



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

The notes set out on pages 9 to 37 form an integral part of these interim condensed consolidated financial statements.

**Russian Agricultural Bank Group**  
**Interim Consolidated Statement of Profit or Loss and Other Comprehensive Income**  
**for the nine months ended 30 September 2017**

| <b>(Unaudited)</b><br><i>In millions of Russian Roubles</i>  | <b>Note</b> | <b>For the nine months<br/>ended 30 September</b> |                 | <b>For the three months<br/>ended 30 September</b> |                |
|--|-------------|---|-----------------|--|----------------|
|  |             | <b>2017</b>                                       | <b>2016</b>     | <b>2017</b>  | <b>2016</b>    |
| Interest income  | 11          | 176 311   | 181 327         | 60 445   | 60 838         |
| Interest expense   | 11          | (128 092)   | (138 572)       | (41 723)   | (45 134)       |
| <b>Net interest income</b>   |             | <b>48 219</b>                                     | <b>42 755</b>   | <b>18 722</b>                                      | <b>15 704</b>  |
| Provision for loan impairment  |             | (44 946)  | (59 210)        | (13 009)   | (17 988)       |
| <b>Net interest income/(expense) after provision<br/>for loan impairment</b>                                       |             | <b>3 273</b>                                      | <b>(16 455)</b> | <b>5 713</b>                                       | <b>(2 284)</b> |
| Fee and commission income  | 12          | 16 469  | 11 557          | 6 121  | 4 375          |
| Fee and commission expense   | 12          | (1 680)   | (1 389)         | (742)  | (497)          |
| Gains less losses/(losses net of gains) from trading securities  |             | 523   | (45)            | (82)   | 10             |
| Gains less losses/(losses net of gains) from financial instruments designated at fair value through profit or loss |             | 88  | (72)            | 21   | 36             |
| Gains less losses from investment securities available for sale  |             | 8 645   | 2 149           | 912  | 546            |
| (Losses)/recovery of losses from impairment of investment securities available for sale                            |             | (441)   | 26              | 2  | 8              |
| Foreign exchange translation gains less losses   |             | 16 019  | 32 679          | 6 038  | 4 000          |
| Losses net of gains from derivative financial instruments  |             | (17 347)  | (27 958)        | (5 760)  | (4 628)        |
| (Losses net of gains)/gains less losses from dealing in foreign currencies   |             | (884)   | 1 720           | (1 596)  | 240            |
| (Provision)/recovery of provision for credit related commitments and other assets impairment                       |             | (116)   | (231)           | 82   | (26)           |
| Losses net of gains from early redemption of borrowed funds  |             | -   | -               | -  | (3)            |
| Gains from non-banking activities  |             | 6 858   | 6 641           | 2 341  | 2 135          |
| Losses from non-banking activities   |             | (6 597)   | (9 935)         | (2 252)  | (3 164)        |
| (Loss)/gain on disposal of subsidiaries  |             | -   | (253)           | -  | 76             |
| Other operating income   |             | 639   | 1 508           | 135  | 314            |
| Administrative and other operating expenses  |             | (34 229)  | (34 197)        | (11 511)   | (11 016)       |
| <b>Loss before tax</b>   |             | <b>(8 780)</b>                                    | <b>(34 255)</b> | <b>(578)</b>                                       | <b>(9 878)</b> |
| Income tax (expense)/credit  |             | (3 474)   | (854)           | (877)  | 30             |
| <b>Loss for the period</b>   |             | <b>(12 254)</b>                                   | <b>(35 109)</b> | <b>(1 455)</b>                                     | <b>(9 848)</b> |
| <b>Loss is attributable to:</b>  |             |   |                 |  |                |
| Shareholder of the Bank  |             | (12 243)  | (34 990)        | (1 455)  | (9 749)        |
| Non-controlling interest   |             | (11)  | (119)           | -  | (99)           |
| <b>Loss for the period</b>   |             | <b>(12 254)</b>                                   | <b>(35 109)</b> | <b>(1 455)</b>                                     | <b>(9 848)</b> |
| <b>Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:</b>               |             |   |                 |  |                |
| Securities available for sale:   |             |   |                 |  |                |
| - Revaluation of securities at fair value  |             | 5 227   | 7 721           | 1 486  | 514            |
| - Realised revaluation reserve (at disposal)   |             | (8 645)   | (2 149)         | (912)  | (546)          |
| Income tax   |             | 697   | (1 114)         | (98)   | 7              |
| <b>Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods, net of tax</b>    |             | <b>(2 721)</b>                                    | <b>4 458</b>    | <b>476</b>   | <b>(25)</b>    |
| <b>Total other comprehensive (loss)/income</b>   |             | <b>(2 721)</b>                                    | <b>4 458</b>    | <b>476</b>   | <b>(25)</b>    |
| <b>Total other comprehensive loss for the period</b>   |             | <b>(14 975)</b>                                   | <b>(30 651)</b> | <b>(979)</b>                                       | <b>(9 873)</b> |
| <b>Total comprehensive loss for the period is attributable to:</b>   |             |   |                 |  |                |
| Shareholder of the Bank  |             | (14 964)  | (30 532)        | (979)  | (9 774)        |
| Non-controlling interest   |             | (11)  | (119)           | -  | (99)           |
| <b>Total other comprehensive loss for the period</b>   |             | <b>(14 975)</b>                                   | <b>(30 651)</b> | <b>(979)</b>                                       | <b>(9 873)</b> |

The notes set out on pages 9 to 37 form an integral part of these interim condensed consolidated financial statements.

**Russian Agricultural Bank Group**  
**Interim Consolidated Statement of Changes in Equity**  
**for the nine months ended 30 September 2017**

| <i>In millions of Russian Roubles</i>                               | Note | Attributable to shareholder of the Bank |                 |                                  |  |                  |                 | Non-controlling interest | Total equity    |
|---|------|---|-----------------|----------------------------------|--|------------------|-----------------|--------------------------|-----------------|
|   |      | Share capital                           | Perpetual bonds | Revaluation reserve for premises | Revaluation reserve for investment securities available for sale | Accumulated loss | Total           |                          |                 |
| <b>Balance at 31 December 2015</b>                                  |      | <b>327 598</b>                          | -               | <b>1 213</b>                     | <b>279</b>   | <b>(134 018)</b> | <b>195 072</b>  | <b>733</b>               | <b>195 805</b>  |
| Loss for the period, net of tax                                     |      | -                                       | -               | -                                | -  | (34 990)         | <b>(34 990)</b> | (119)                    | <b>(35 109)</b> |
| Other comprehensive income for the period, net of tax               |      | -                                       | -               | -                                | 4 458  | -                | <b>4 458</b>    | -                        | <b>4 458</b>    |
| <b>Total comprehensive income/(loss) for the period, net of tax</b> |      | -                                       | -               | -                                | <b>4 458</b>   | <b>(34 990)</b>  | <b>(30 532)</b> | <b>(119)</b>             | <b>(30 651)</b> |
| Share issue   |      | 8 000                                   | -               | -                                | -  | -                | <b>8 000</b>    | -                        | <b>8 000</b>    |
| Disposal of subsidiaries  |      | -                                       | -               | -                                | -  | -                | -               | (6)                      | <b>(6)</b>      |
| Depreciation of revaluation reserve for premises                    |      | -                                       | -               | (42)                             | -  | 42               | -               | -                        | -               |
| Perpetual bonds issue   |      | -                                       | 10 000          | -                                | -  | -                | <b>10 000</b>   | -                        | <b>10 000</b>   |
| Transaction costs on perpetual bonds issue                          |      | -                                       | -               | -                                | -  | (154)            | <b>(154)</b>    | -                        | <b>(154)</b>    |
| Tax effect recognized on perpetual bonds                            |      | -                                       | -               | -                                | -  | 31               | <b>31</b>       | -                        | <b>31</b>       |
| <b>Balance at 30 September 2016 (unaudited)</b>                     |      | <b>335 598</b>                          | <b>10 000</b>   | <b>1 171</b>                     | <b>4 737</b>   | <b>(169 089)</b> | <b>182 417</b>  | <b>608</b>               | <b>183 025</b>  |
| <b>Balance at 31 December 2016</b>                                  |      | <b>335 598</b>                          | <b>15 000</b>   | <b>1 092</b>                     | <b>5 740</b>   | <b>(192 807)</b> | <b>164 623</b>  | <b>(4)</b>               | <b>164 619</b>  |
| Loss for the period, net of tax                                     |      | -                                       | -               | -                                | -  | (12 243)         | <b>(12 243)</b> | (11)                     | <b>(12 254)</b> |
| Other comprehensive loss for the period, net of tax                 |      | -                                       | -               | -                                | (2 721)  | -                | <b>(2 721)</b>  | -                        | <b>(2 721)</b>  |
| <b>Total comprehensive loss for the period, net of tax</b>          |      | -                                       | -               | -                                | <b>(2 721)</b>   | <b>(12 243)</b>  | <b>(14 964)</b> | <b>(11)</b>              | <b>(14 975)</b> |
| Share issue   | 19   | 30 000                                  | -               | -                                | -  | -                | <b>30 000</b>   | -                        | <b>30 000</b>   |
| Depreciation of revaluation reserve for premises                    |      | -                                       | -               | (35)                             | -  | 35               | -               | -                        | -               |
| Dividends paid  |      | -                                       | -               | -                                | -  | (257)            | <b>(257)</b>    | -                        | <b>(257)</b>    |
| Amounts due under perpetual bonds (coupon accrued)                  | 10   | -                                       | -               | -                                | -  | (1 483)          | <b>(1 483)</b>  | -                        | <b>(1 483)</b>  |
| Tax effect recognized on perpetual bonds                            |      | -                                       | -               | -                                | -  | 297              | <b>297</b>      | -                        | <b>297</b>      |
| <b>Balance at 30 September 2017 (unaudited)</b>                     |      | <b>365 598</b>                          | <b>15 000</b>   | <b>1 057</b>                     | <b>3 019</b>   | <b>(206 458)</b> | <b>178 216</b>  | <b>(15)</b>              | <b>178 201</b>  |

The notes set out on pages 9 to 37 form an integral part of these interim condensed consolidated financial statements.

**Russian Agricultural Bank Group**  
**Interim Consolidated Statement of Cash Flows**  
**for the nine months ended 30 September 2017**

| <b>(Unaudited)</b>   |             | <b>For the nine months ended 30 September</b> |                 |
|--|-------------|---|-----------------|
| <i>In millions of Russian Roubles</i>  | <b>Note</b> | <b>2017</b>                                   | <b>2016</b>     |
| <b>Cash flows from operating activities</b>  |             |   |                 |
| Interest received  |             | 195 513                                       | 190 521         |
| Interest paid  |             | (133 668)                                     | (125 322)       |
| Income received from trading in securities and financial instruments designated at fair value through profit or loss |             | 9 111   | 2 356           |
| Income received from derivative financial instruments  |             | 28 416  | 8 455           |
| (Expenses incurred)/income received from dealing in foreign currencies   |             | (884)   | 1 720           |
| Fees and commissions received  |             | 18 208  | 11 936          |
| Fees and commissions paid  |             | (1 680)                                       | (1 389)         |
| Other operating income received  |             | 772   | 692             |
| Net income received from insurance operations  |             | 1 156   | 617             |
| Income received from non-banking activities  |             | 3 595   | 4 045           |
| Losses incurred from non-banking activities  |             | (8 513)                                       | (6 359)         |
| Administrative and other operating expenses paid   |             | (28 318)                                      | (29 317)        |
| Income tax paid  |             | (2 329)                                       | (1 959)         |
| <b>Cash flows from operating activities before changes in operating assets and liabilities</b>                       |             | <b>81 379</b>                                 | <b>55 996</b>   |
| <b>Changes in operating assets and liabilities</b>   |             |   |                 |
| Net increase in mandatory cash balances with the Central Bank of the Russian Federation                              |             | (6 146)                                       | (3 046)         |
| Net increase in trading securities   |             | (3 604)                                       | (32 851)        |
| Net decrease in financial instruments designated at fair value through profit or loss                                |             | 580   | 1 258           |
| Net increase in due from other banks   |             | (904)   | (42 032)        |
| Net increase in loans and advances to customers  |             | (248 208)                                     | (133 331)       |
| Net (increase)/decrease in other assets  |             | (781)   | 5 278           |
| Net decrease in due to other banks   |             | (9 523)                                       | (25 976)        |
| Net increase in customer accounts  |             | 323 898                                       | 334 309         |
| Net increase/(decrease) in promissory notes issued   |             | 21 608  | (959)           |
| Net increase/(decrease) in other liabilities   |             | 471   | (1 007)         |
| <b>Net cash from operating activities</b>  |             | <b>158 770</b>                                | <b>157 639</b>  |
| <b>Cash flows from investing activities</b>  |             |   |                 |
| Acquisition of premises and equipment  |             | (3 286)                                       | (1 063)         |
| Proceeds from disposal of premises and equipment   |             | 332   | 186             |
| Acquisition of intangible assets   |             | (1 153)                                       | (888)           |
| Acquisition of investment securities available for sale  |             | (312 736)                                     | (219 897)       |
| Proceeds from disposal of investment securities available for sale   |             | 225 761                                       | 200 118         |
| Acquisition of investment securities held to maturity  |             | (3 641)                                       | -               |
| Proceeds from redemption of investment securities held to maturity   |             | 3 056   | 3 034           |
| Proceeds from sale of subsidiaries   |             | -   | 440             |
| <b>Net cash used in investing activities</b>   |             | <b>(91 667)</b>                               | <b>(18 070)</b> |
| <b>Cash flows from financing activities</b>  |             |   |                 |
| Dividends paid   | 19          | (257)   | -               |
| Issue of ordinary shares   | 19          | 30 000  | 8 000           |
| Repayment of subordinated debts  |             | (12 000)                                      | (51 340)        |
| Proceeds from bonds issued   | 9           | 20 000  | -               |
| Repayment of bonds issued  |             | (104 546)                                     | (44 438)        |
| Proceeds from sale of previously bought back bonds issued on domestic market   | 9           | 15 881  | 27 575          |
| Buy back of bonds issued at or prior to put option date  | 9           | (43 515)                                      | (40 294)        |
| Proceeds from sale of previously bought back Eurobonds issued  |             | 12 586  | 14 566          |
| Buy back of Eurobonds issued   |             | (22 373)                                      | (14 010)        |
| Amounts paid on perpetual bonds  | 10          | (1 801)                                       | -               |
| Proceeds from sale of non-controlling interests in consolidated mutual funds   |             | 1 556   | -               |
| Payments on disposal of non-controlling interests in consolidated mutual funds                                       |             | (251)   | -               |
| Proceeds from sale of previously bought back subordinated debts  |             | -   | 16 713          |
| Buy back of subordinated debts   |             | -   | (8 553)         |
| Perpetual bonds issue less transaction costs   |             | -   | 9 846           |
| <b>Net cash used in financing activities</b>   |             | <b>(104 720)</b>                              | <b>(81 935)</b> |
| <b>Effect of exchange rate changes on cash and cash equivalents</b>  |             | <b>(697)</b>                                  | <b>(6 991)</b>  |
| <b>Net (decrease)/increase in cash and cash equivalents</b>  |             | <b>(38 314)</b>                               | <b>50 643</b>   |
| Cash and cash equivalents at the beginning of the period   |             | 326 033                                       | 168 232         |
| <b>Cash and cash equivalents at the end of the period</b>  |             | <b>287 719</b>                                | <b>218 875</b>  |

The notes set out on pages 9 to 37 form an integral part of these interim condensed consolidated financial statements.



## **1 Introduction**

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) for the nine months ended 30 September 2017 for Joint Stock Company Russian Agricultural Bank (the “Bank”) and its subsidiaries (together referred to as the “Group”).

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

The Bank’s only shareholder is the Russian Federation acting through the Federal Agency for Managing State Property which holds the Bank’s issued and outstanding ordinary shares (74.29% from total share capital (31 December 2016: 71.99% from total share capital)), the Ministry of Finance of the Russian Federation which holds the Bank’s issued and outstanding preference shares (6.85% from total share capital (31 December 2016: 7.47% from total share capital)) and the State Corporation “Deposit Insurance Agency” which holds the Bank’s issued and outstanding preference shares (18.86% from total share capital (31 December 2016: 20.54% from total share capital)).

The Group’s structure comprises of the Bank and its subsidiaries. Principal subsidiaries of the Bank are Joint-stock company “RSHB-Insurance” (ownership interest of the Bank is 100%), RSHB Capital S.A. Societe Anonyme (Luxembourg) (structured entity incorporated for Eurobonds issue for the Bank), “RSHB Asset Management” Limited Liability Company (ownership interest of the Bank is 100%) and 34 companies and mutual funds operating in agricultural and other industries.

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

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

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

The Bank has 72 (31 December 2016: 73) branches within the Russian Federation. The Bank’s registered address is 119034 Russia, Moscow, Gagarinsky Pereulok, 3. The Bank’s principal place of business is 119019 Russia, Moscow, Arbat, 1.

The number of the Group’s employees as at 30 September 2017 was 30 556 (31 December 2016: 30 271).

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

## **2 Operating Environment of the Group**

**Russian Federation.** 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.

Economic indicators of the third quarter 2017 reflect weakening the main negative factors for economic development. The duration and depth of the recession were largely caused by such factors as unfavourable raw material market conjuncture, particularly, significant drop in crude oil prices, the effect of international sanctions imposed against certain Russian companies and individuals, reduction of investments and decline in the household consumption.

## 2 Operating Environment of the Group (Continued)

These events may have a further significant impact on the Group's future operations and financial position, the effect of which is difficult to predict.

During the nine months ended 30 September 2017, the following were the key changes in selected macro-economic indicators:

- the CBRF exchange rate appreciated from RR 60.6569 to RR 58.0169 per US Dollar;
- the CBRF key rate decreased from 10.0% p.a. to 8.5% p.a.;
- the RTS stock exchange index decreased from 1152.3 to 1136.8.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

## 3 Summary of Significant Accounting Policies

**Basis of preparation.** These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2016, which have been prepared in accordance with IFRS.

The functional currency of the Bank and its subsidiaries, and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles. As at 30 September 2017 the principal rates of exchange used for translating foreign currency balances were USD 1 = RR 58.0169 (31 December 2016: USD 1 = RR 60.6569), EUR 1 = RR 68.4483 (31 December 2016: EUR 1 = RR 63.8111).

The accounting policies applied in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016, except for the changes introduced due to implementation of new and/or revised standards and interpretations as at 1 January 2017 or as at the date indicated, noted below. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments apply for the first time in 2017, they do not have a material effect on the interim condensed consolidated financial statements of the Group. The nature and the impact of each new standard or amendment are described below:

**Disclosure Initiative — Amendments to IAS 7 Statement of Cash flows (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017).** The amended IAS 7 requires disclosure of a reconciliation of movements in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains less losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Group is not required to provide additional disclosures in its interim condensed consolidated financial statements, but will disclose additional information in its annual consolidated financial statements for the year ended 31 December 2017.

**Recognition of Deferred Tax Assets for Unrealised Losses — Amendments to IAS 12 Income Taxes (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017).** The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

### 3 Summary of Significant Accounting Policies (Continued)

The Group applied the amendments retrospectively. However, their application has no effect on the Group's financial position and performance.

**Annual Improvements to IFRSs 2014-2016 cycle (issued in December 2016 and effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12, and on or after 1 January 2018 for amendments to IFRS 1 and IAS 28). Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12.** The amendments clarify the scope of the disclosure requirements in IFRS 12 by specifying that the disclosure requirements in IFRS 12, other than those relating to summarised financial information for subsidiaries, joint ventures and associates, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5. The Group has adopted the amendments retrospectively. As the disclosure requirements in IFRS 12 do not specifically apply to the interim condensed consolidated financial statements, the Group did not provide these disclosures for its interest in a subsidiary classified as a disposal group held for sale. The Group will consider the disclosure of the required information in its annual consolidated financial statements for the year ended 31 December 2017.

**IFRS 9 Financial Instruments (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018).** The Group is in process of assessment of impact on financial statements.

### 4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The accounting estimates and judgements applied in the preparation of these interim condensed consolidated financial statements are consistent with those applied in the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2016.

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

**Impairment losses on loans and advances.** The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the profit or loss, the Group 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 a particular group.

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.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

**Held-to-maturity financial assets.** Management applies judgment in assessing whether financial assets can be categorized as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances — for example, selling an insignificant amount or a sale close to maturity — it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost.

**Fair value of derivatives.** The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values. Refer to Note 17.

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

**Deferred income tax asset recognition.** The recognized deferred tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the interim consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances and approved by the management of the Bank. A key assumption in the business plan is to obtain profits in subsequent financial years through widening of product range and client base.

**Structured entities.** The Group considers RSHB Capital S.A. incorporated for Eurobonds issue for the Bank as consolidated structured entity under IFRS 12 requirements. As at 30 September 2017 the Group guarantees all obligations of the consolidated structured entity represented by Eurobonds issued in the amount of RR 186 626 million and subordinated debts in the amount of RR 30 025 million (31 December 2016: Eurobonds issued in the amount of RR 294 941 million and subordinated debts in the amount of RR 30 735 million). During nine months ended 30 September 2017 and the year ended 31 December 2016 the Group did not provide any other financial support to the consolidated structured entity. The Group has no other current obligation or intention neither to provide financial or other support to the consolidated structured entity nor to assist it in obtaining financial support.

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

#### 5 Loans and Advances to Customers

| <i>In millions of Russian Roubles</i>                            | <b>30 September<br/>2017<br/>(unaudited)</b> | <b>31 December<br/>2016</b> |
|--|--|-----------------------------|
| Loans to legal entities:   |  |                             |
| - Loans to corporates  | 1 590 397                                    | 1 446 442                   |
| - Lending for food interventions                                 | 38 312                                       | 33 921                      |
| - Investments in agricultural cooperatives                       | 357  | 395                         |
| Loans to individuals   | 346 802                                      | 327 131                     |
| <b>Total loans and advances to customers (before impairment)</b> | <b>1 975 868</b>                             | <b>1 807 889</b>            |
| Less: provision for loan impairment                              | (196 630)                                    | (189 952)                   |
| <b>Total loans and advances to customers</b>                     | <b>1 779 238</b>                             | <b>1 617 937</b>            |

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

As at 30 September 2017, the Group has loans to ten largest borrowers (groups of borrowers) in the total amount of RR 486 168 million (before impairment), or 25% of total loans and advances to customers (before impairment) (31 December 2016: the Group has loans to ten largest borrowers (groups of borrowers) in the total amount of RR 411 443 million (before impairment), or 23% of total loans and advances to customers (before impairment)).

## 5 Loans and Advances to Customers (Continued)

Analysis of the movements in the provision for loan impairment is as follows:

| <i>(Unaudited)</i><br><i>In millions of Russian Roubles</i>                    | For the nine months ended 30 September 2017 |  |                      |                | For the nine months ended 30 September 2016 |  |                      |                |
|--|---|--|----------------------|----------------|---|--|----------------------|----------------|
|  | Loans to corporates                         | Investments in agricultural cooperatives | Loans to individuals | Total          | Loans to corporates                         | Investments in agricultural cooperatives | Loans to individuals | Total          |
| <b>Provision for loan impairment at 1 January</b>                              | 176 153                                     | 49                                       | 13 750               | 189 952        | 166 293                                     | 63                                       | 12 868               | 179 224        |
| Net provision for loan impairment during the period                            | 40 550                                      | 17                                       | 4 387                | 44 954         | 53 259                                      | (33)                                     | 5 960                | 59 186         |
| Provision for loans sold during the period                                     | (26 288)                                    | -  | (2 532)              | (28 820)       | (37 382)                                    | -  | (4 157)              | (41 539)       |
| Loans and advances to customers written off during the period as uncollectible | (10 306)                                    | -  | (11)                 | (10 317)       | (23 795)                                    | -  | (25)                 | (23 820)       |
| Recovery of loans previously written off sold during the period                | 416   | -  | -                    | 416            | 440   | -  | -                    | 440            |
| Recovery of loans previously written off                                       | 445   | -  | -                    | 445            | 722   | -  | -                    | 722            |
| <b>Provision for loan impairment at 30 September</b>                           | <b>180 970</b>                              | <b>66</b>                                | <b>15 594</b>        | <b>196 630</b> | <b>159 537</b>                              | <b>30</b>                                | <b>14 646</b>        | <b>174 213</b> |

No provision for “Lending for food interventions” and “Reverse repo agreements” was recorded as at 30 September 2017 and 31 December 2016.

Refer to Note 18 for the disclosure of fair value of each class of loans and advances to customers and fair value hierarchy for loans and advances to customers. The information on related party transactions is disclosed in Note 19.

## 6 Reclassification from Investment Securities Available for Sale

During nine months ended 30 September 2017 the Group reclassified certain financial assets from the available-for-sale category as a result of reassessment of its intention to hold these investments till maturity.

As at 30 September 2017, the amount of all investment securities that have been reclassified from investment securities available for sale during nine months ended 30 September 2017 and which were not fully repaid yet, were as follows:

| <i>(Unaudited)</i><br><i>In millions of Russian Roubles</i>  | Amount reclassified as at reclassification date | Undiscounted cash flows expected to be recovered | Effective interest rate (%) |
|--|---|--|-----------------------------|
| Corporate bonds  | 18 508  | 26 442   | 7.8-9.6                     |
| Municipal and subfederal bonds   | 16 107  | 16 823   | 6.4-10.4                    |
| <b>Total investment securities that have been reclassified from available-for-sale category to held-to-maturity category</b> | <b>34 615</b>                                   | <b>43 265</b>                                    |                             |

## 7 Due to Other Banks

| <i>In millions of Russian Roubles</i>                          | <b>30 September<br/>2017<br/>(unaudited)</b> | <b>31 December<br/>2016</b> |
|--|--|-----------------------------|
| Correspondent accounts and overnight placements of other banks | 3 802  | 7 900                       |
| Borrowings from other banks with term to maturity:             |  |                             |
| - less than 30 days  | 12 158                                       | 3 627                       |
| - from 31 to 180 days  | 398  | 18 109                      |
| - from 181 days to 1 year                                      | 121  | 109                         |
| - from 1 year to 3 years                                       | 323  | 800                         |
| - more than 3 years  | 18 751                                       | 19 114                      |
| Borrowings from the CBRF with term to maturity:                |  |                             |
| - less than 30 days  | 662  | 75                          |
| - from 31 to 180 days  | 773  | 3 910                       |
| - from 181 days to 1 year                                      | 6 303  | 2 191                       |
| - from 1 year to 3 years                                       | 14 535                                       | 22 759                      |
| <b>Total due to other banks</b>                                | <b>57 826</b>                                | <b>78 594</b>               |

Refer to Note 18 for the disclosure of the fair value and fair value hierarchy for due to other banks. The information on related party transactions is disclosed in Note 19.

## 8 Customer Accounts

| <i>In millions of Russian Roubles</i> | <b>30 September<br/>2017<br/>(unaudited)</b> | <b>31 December<br/>2016</b> |
|---------------------------------------|--|-----------------------------|
| State and public organisations        |  |                             |
| - Current/settlement accounts         | 11 201                                       | 11 476                      |
| - Term deposits                       | 448 849                                      | 381 482                     |
| Other legal entities                  |  |                             |
| - Current/settlement accounts         | 128 734                                      | 115 026                     |
| - Term deposits                       | 525 579                                      | 456 752                     |
| Individuals                           |  |                             |
| - Current/demand accounts             | 66 881                                       | 53 402                      |
| - Term deposits                       | 720 512                                      | 559 629                     |
| <b>Total customer accounts</b>        | <b>1 901 756</b>                             | <b>1 577 767</b>            |

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

## 8 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

| <i>In millions of Russian Roubles</i> | <b>30 September 2017</b> |            | <b>31 December 2016</b> |            |
|---------------------------------------|--------------------------|------------|-------------------------|------------|
|                                       | <b>Amount</b>            | <b>%</b>   | <b>Amount</b>           | <b>%</b>   |
| Individuals                           | 787 393                  | 41         | 613 031                 | 39         |
| State and public organisations        | 460 050                  | 24         | 392 958                 | 25         |
| Manufacturing                         | 173 455                  | 9          | 100 843                 | 6          |
| Financial services and pension funds  | 138 017                  | 7          | 145 522                 | 9          |
| Agriculture                           | 65 544                   | 3          | 62 338                  | 4          |
| Construction                          | 67 905                   | 4          | 75 590                  | 5          |
| Trading                               | 58 458                   | 3          | 44 155                  | 3          |
| Insurance                             | 47 373                   | 2          | 58 479                  | 4          |
| Other                                 | 103 561                  | 7          | 84 851                  | 5          |
| <b>Total customer accounts</b>        | <b>1 901 756</b>         | <b>100</b> | <b>1 577 767</b>        | <b>100</b> |

Refer to Note 18 for the disclosure of the fair value and fair value hierarchy for customer accounts. The information on related party transactions is disclosed in Note 19.

## 9 Bonds Issued

| <i>In millions of Russian Roubles</i> | <b>30 September 2017</b> | <b>31 December 2016</b> |
|---------------------------------------|--------------------------|-------------------------|
|                                       | <b>(unaudited)</b>       |                         |
| Eurobonds issued                      | 186 626                  | 294 941                 |
| Bonds issued on domestic market       | 138 059                  | 160 943                 |
| <b>Total bonds issued</b>             | <b>324 685</b>           | <b>455 884</b>          |

As at 30 September 2017, bonds issued consist of US Dollars and Russian Roubles denominated Eurobonds (31 December 2016: bonds issued consist of US Dollars and Russian Roubles denominated Eurobonds) issued by the Group through its structured entity RSHB Capital S.A. as well as Russian Roubles denominated bonds issued on domestic market.

In February 2017, the Group redeemed at the maturity date bonds denominated in Russian Roubles issued on the domestic market with a total nominal value of RR 10 000 million.

In February 2017, the Group repaid at the maturity date Eurobonds (loan participation notes) (placed at par) denominated in Russian Roubles in the amount of RR 20 000 million, issued in February and July 2012.

In March 2017, the Group issued on the domestic market RR 10 000 million bonds (placed at par) maturing in September 2020 with semi-annual payments of coupon at 9.5% p.a.

In May 2017, the Group repaid at the maturity date Eurobonds (loan participation notes) (placed at par) denominated in US Dollars in the amount of USD 1 148 million, equivalent to RR 67 195 million as at maturity date, issued in May 2007.

In June 2017, the Group issued on the domestic market RR 10 000 million bonds (placed at par) maturing in June 2021 with semi-annual payments of coupon at 8.65% p.a.

In June 2017, the Group redeemed at the maturity date bonds denominated in Russian Roubles issued on the domestic market with a total nominal value of RR 15 000 million.

In September 2017, the Group redeemed at the maturity date bonds denominated in Russian Roubles issued on the domestic market with a total nominal value of RR 10 000 million.

During nine months ended 30 September 2017, the Group repurchased bonds denominated in RR issued on the domestic market in the amount of RR 43 515 million at the put option date.

## **9 Bonds Issued (Continued)**

During nine months ended 30 September 2017, the Group re-issued on the domestic market RR 15 881 million of previously bought back bonds maturing from February 2018 to December 2024 with coupon from 8.5% to 11.10% p.a.

Refer to Note 18 for the disclosure of the fair value and fair value hierarchy for bonds issued. Refer to Note 20 for information on redemptions after the end of the reporting period.

## **10 Perpetual Bonds**

As at 30 September 2017, the Group's perpetual bonds equal to RR 15 000 million.

In July 2016, the Group issued on the domestic market RR 10 000 million subordinated perpetual bonds (placed at par). Perpetual bonds have an unlimited term and are redeemable at the Group's option starting from July 2026 at their principal amount in the end date of each next duration 10-year-period. Coupon rate is fixed at 14.5% p.a. and will be reset every 10 years as 10-year OFZ yield increased by initial spread plus 100 b.p. Coupon payments are paid semi-annually from January 2017 and may be cancelled or deferred in accordance with the terms of the notes.

In October 2016, the Group issued on the domestic market RR 5 000 million subordinated perpetual bonds (placed at par). Perpetual bonds have an unlimited term and are redeemable at the Group's option starting from September 2026 at their principal amount at their principal amount in the end date of each next duration 10-year-period. Coupon rate is fixed at 14.25% p.a. and will be reset every 10 years as 10-year OFZ yield increased by initial spread plus 100 b.p. Coupon payments are paid semi-annually from April 2017 and may be cancelled or deferred in accordance with the terms of the notes.

In January 2017, the Group paid the amount due under perpetual bonds in the total amount of RR 723 million including coupon accrued in 2017 in the amount of RR 58 million for the coupon period ended in January 2017.

In April 2017, the Group paid the amount due under perpetual bonds in the total amount of RR 355 million for the coupon period ended in April 2017.

In July 2017, the Group paid the amount due under perpetual bonds in the total amount of RR 723 million for the coupon period ended in July 2017.

As at 30 September 2017, the Group accrued amounts due under perpetual bonds in the amount of RR 347 million.



## 11 Interest Income and Expense

| <i>(Unaudited)</i><br>In millions of Russian Roubles   | For the nine months<br>ended 30 September |                  | For the three months<br>ended 30 September |                 |
|--|---|------------------|--|-----------------|
|  | 2017                                      | 2016             | 2017                                       | 2016            |
| <b>Interest income on financial instruments<br/>carried at fair value through profit or loss</b>           |   |                  |  |                 |
| Trading securities   | 1 977                                     | 972              | 484  | 735             |
| Financial instruments designated at fair value<br>through profit or loss                                   | 141                                       | 166              | 46   | 95              |
| <b>Total interest income on financial<br/>instruments carried at fair value through<br/>profit or loss</b> | <b>2 118</b>                              | <b>1 138</b>     | <b>530</b>                                 | <b>830</b>      |
| <b>Interest income on other financial<br/>instruments</b>  |   |                  |  |                 |
| Loans and advances to legal entities   | 104 443                                   | 112 853          | 35 258                                     | 36 371          |
| Loans and advances to individuals  | 36 442                                    | 34 506           | 12 704                                     | 12 993          |
| Investment securities available for sale including<br>pledged under repurchase agreements                  | 16 266                                    | 17 733           | 5 868                                      | 5 722           |
| Cash equivalents   | 10 367                                    | 4 726            | 4 868                                      | 838             |
| Due from other banks   | 5 156                                     | 8 414            | 573  | 3 437           |
| Investment securities held to maturity including<br>pledged under repurchase agreements                    | 1 519                                     | 1 957            | 644  | 647             |
| <b>Total interest income on other financial<br/>instruments</b>  | <b>174 193</b>                            | <b>180 189</b>   | <b>59 915</b>                              | <b>60 008</b>   |
| <b>Total interest income</b>   | <b>176 311</b>                            | <b>181 327</b>   | <b>60 445</b>                              | <b>60 838</b>   |
| <b>Interest expense</b>  |   |                  |  |                 |
| Term deposits of legal entities  | (57 960)                                  | (55 823)         | (18 675)                                   | (18 829)        |
| Term deposits of individuals   | (33 983)                                  | (31 827)         | (12 148)                                   | (10 428)        |
| Bonds issued   | (22 772)                                  | (34 025)         | (6 979)                                    | (10 983)        |
| Subordinated debts   | (7 133)                                   | (10 752)         | (1 954)                                    | (3 104)         |
| Current/settlement accounts  | (2 508)                                   | (1 383)          | (931)                                      | (538)           |
| Promissory notes issued  | (1 653)                                   | (955)            | (576)                                      | (173)           |
| Term deposits of the CBRF  | (1 456)                                   | (2 571)          | (439)                                      | (514)           |
| Term deposits of other banks   | (627)                                     | (1 236)          | (21)                                       | (565)           |
| <b>Total interest expense</b>  | <b>(128 092)</b>                          | <b>(138 572)</b> | <b>(41 723)</b>                            | <b>(45 134)</b> |
| <b>Net interest income</b>   | <b>48 219</b>                             | <b>42 755</b>    | <b>18 722</b>                              | <b>15 704</b>   |

The information on related party transactions is disclosed in Note 19.

## 12 Fee and Commission Income and Expense

| <i>(Unaudited)</i><br>In millions of Russian Roubles         | For the nine months<br>ended 30 September |                | For the three months<br>ended 30 September |              |
|--|---|----------------|--|--------------|
|  | 2017                                      | 2016           | 2017                                       | 2016         |
| <b>Fee and commission income</b>                             |   |                |  |              |
| Commission on cash and settlements transactions              | 7 590                                     | 6 194          | 2 823                                      | 2 226        |
| Fees for sale of insurance contracts                         | 3 768                                     | 2 525          | 1 239                                      | 1 079        |
| Commission on guarantees issued                              | 1 805                                     | 1 621          | 593  | 598          |
| Commission on banking cards                                  | 728                                       | 505            | 275  | 189          |
| Commission received from the Deposit Insurance Fund (SC DIA) | 642                                       | 38             | 130  | -            |
| Fees for currency control                                    | 158                                       | 152            | 57   | 51           |
| Other  | 1 778                                     | 522            | 1 004                                      | 232          |
| <b>Total fee and commission income</b>                       | <b>16 469</b>                             | <b>11 557</b>  | <b>6 121</b>                               | <b>4 375</b> |
| <b>Fee and commission expense</b>                            |   |                |  |              |
| Commission on settlement transactions                        | (1 110)                                   | (621)          | (552)                                      | (223)        |
| Commission on cash collection                                | (354)                                     | (333)          | (138)                                      | (126)        |
| Other  | (216)                                     | (435)          | (52)                                       | (148)        |
| <b>Total fee and commission expense</b>                      | <b>(1 680)</b>                            | <b>(1 389)</b> | <b>(742)</b>                               | <b>(497)</b> |
| <b>Net fee and commission income</b>                         | <b>14 789</b>                             | <b>10 168</b>  | <b>5 379</b>                               | <b>3 878</b> |

## 13 Gains less Losses/(Losses Net of Gains) from Non-banking Activities

| <i>(Unaudited)</i><br>In millions of Russian Roubles                                   | For the nine months<br>ended 30 September |                | For the three months<br>ended 30 September |                |
|--|---|----------------|--|----------------|
|  | 2017                                      | 2016           | 2017                                       | 2016           |
| Sales of goods   | 4 238                                     | 4 526          | 1 705                                      | 1 439          |
| Cost of goods sold   | (4 159)                                   | (4 223)        | (1 598)                                    | (1 322)        |
| Impairment of premises and equipment   | -   | (2 746)        | -  | (426)          |
| Provision for impairment for trade receivables, prepayments and other financial assets | (81)                                      | (265)          | (24)                                       | (171)          |
| Net income from insurance operations   | 1 180                                     | 715            | 283  | 69             |
| Other non-banking income   | 513                                       | 688            | (75)                                       | 218            |
| Other non-banking expenses   | (1 430)                                   | (1 989)        | (202)                                      | (836)          |
| <b>Total gains less losses from non-banking activities</b>                             | <b>261</b>                                | <b>(3 294)</b> | <b>89</b>                                  | <b>(1 029)</b> |

Sales of goods mainly represent sales of grain, sugar, meat and milk products, animal feedstuff and other non-foods agricultures.

### 13 Gains less Losses/(Losses Net of Gains) from Non-banking Activities (Continued)

Net income from insurance operations is as follows:

| <i>(Unaudited)</i><br>In millions of Russian Roubles  | For the nine months<br>ended 30 September |              | For the three months<br>ended 30 September |              |
|---|---|--------------|--|--------------|
|   | 2017                                      | 2016         | 2017                                       | 2016         |
| <b>Insurance premiums</b>                             |   |              |  |              |
| Premium earned  | 3 741                                     | 2 751        | 1 372                                      | 1 069        |
| Reinsurers share in premiums earned                   | (1 634)                                   | (1 324)      | (661)                                      | (591)        |
| <b>Net insurance premiums earned</b>                  | <b>2 107</b>                              | <b>1 427</b> | <b>711</b>                                 | <b>478</b>   |
| <b>Insurance benefits and claims</b>                  |   |              |  |              |
| Net claims incurred during the period                 | (1 467)                                   | (629)        | (791)                                      | (451)        |
| Acquisition costs                                     | (430)                                     | (458)        | (139)                                      | (153)        |
| Reinsurers share in claims incurred during the period | 970                                       | 375          | 502  | 195          |
| <b>Net insurance benefits and claims</b>              | <b>(927)</b>                              | <b>(712)</b> | <b>(428)</b>                               | <b>(409)</b> |
| <b>Net income from insurance operations</b>           | <b>1 180</b>                              | <b>715</b>   | <b>283</b>                                 | <b>69</b>    |

### 14 Significant Risk Concentrations

As at 30 September 2017, correspondent accounts and deposits with other banks with original maturities less than one month within cash and cash equivalents included no balances, individually above 10% of the Group's equity (31 December 2016: balances with one Russian banking group with rating of the parent bank at Ba2 (Moody's) and one OECD banking group with rating of the parent bank at BBB- (S&P), each individually above 10% of the Group's equity, in the amount of RR 48 259 million, or 15% of total cash and cash equivalents). As at 30 September 2017, correspondent accounts and deposits with other banks with original maturities less than one month within cash and cash equivalents included the balances with three OECD banking groups with rating of the parent bank not lower than A (S&P) and three Russian banking groups with rating of the parent bank not lower than B+ (S&P) in aggregate above 10% of the Group's equity, in the amount of RR 17 830 million, or 6% of total cash and cash equivalents.

As at 30 September 2017, cash and cash equivalents included the balances with CBRF in the total amount of RR 163 024 million, or 57% of total cash and cash equivalents (31 December 2016: RR 128 335 million, or 39% of total cash and cash equivalents).

As at 30 September 2017, due from other banks included the balance with one Russian banking group with rating of the parent bank at Ba2 (Moody's), individually above 10% of the Group's equity, in the amount of RR 33 561 million, or 55% of total due from other banks (31 December 2016: due from other banks included the balance with one Russian banking group with rating of the parent bank at Ba2 (Moody's) individually above 10% of the Group's equity, in the amount of RR 24 820 million, or 45% of total due from other banks).

As at 30 September 2017, due to other banks included balances with CBRF above 10% of the Group's equity in the amount of RR 22 273 million, or 39% of total due to other banks (31 December 2016: due to other banks included balances with CBRF above 10% of the Group's equity in the amount of RR 28 930 million, or 37% of total due to other banks).

As at 30 September 2017, due to other banks included no balances with other banks individually above 10% of the Group's equity (31 December 2016: due to other banks included the balances with one OECD banking group individually above 10% of the Group's equity with rating of the parent bank at A+ (S&P) in the amount of RR 17 502 million, or 22% of total due to other banks). As at 30 September 2017, due to other banks included the balances with one OECD banking group with rating of the parent bank at A (S&P) and two Russian banking groups with rating of the parent bank not lower than BB+ (S&P) in aggregate above 10% of the Group's equity, in the amount of RR 19 742 million, or 34% of total due to other banks.

#### **14 Significant Risk Concentrations (Continued)**

As at 30 September 2017, customer accounts included balances with seven customers each above 10% of the Group's equity (31 December 2016: balances with six customers each above 10% of the Group's equity). The aggregate balance of these customers was RR 510 235 million, or 27% of total customer accounts (31 December 2016: RR 478 554 million, or 30% of total customer accounts).

#### **15 Segment Analysis**

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

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

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

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

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

## 15 Segment Analysis (Continued)

Segment reporting of the Group's revenue and (loss)/profit for the nine months ended 30 September 2017 and for the nine months ended 30 September 2016 and segment reporting of the Group's assets at 30 September 2017 and 31 December 2016 are as follows:

| <i>In millions of Russian Roubles</i>  | Head office     | Central federal district | Far-Eastern federal district | Volga federal district | North-West federal district | North-Caucasian federal district | Siberian federal district | Ural federal district | Southern federal district | Total          |
|--|-----------------|--------------------------|------------------------------|------------------------|-----------------------------|----------------------------------|---------------------------|-----------------------|---------------------------|----------------|
| <b>For the nine months ended 30 September 2017 (unaudited)</b>   |                 |                          |                              |                        |                             |                                  |                           |                       |                           |                |
| <b>Revenue from external customers</b>   | <b>39 407</b>   | <b>54 949</b>            | <b>5 598</b>                 | <b>32 659</b>          | <b>12 832</b>               | <b>8 339</b>                     | <b>13 812</b>             | <b>6 043</b>          | <b>24 285</b>             | <b>197 924</b> |
| - Interest income from loans and advances to customers, due from other banks and other placed funds                    | 38 091          | 50 192                   | 4 780                        | 29 308                 | 11 429                      | 7 173                            | 11 773                    | 5 458                 | 22 512                    | 180 716        |
| - Net fee and commission income from credit related operations   | 1 316           | 4 757                    | 818                          | 3 351                  | 1 403                       | 1 166                            | 2 039                     | 585                   | 1 773                     | 17 208         |
| Gains less losses/(losses net of gains) arising from securities, derivative financial instruments and foreign currency | 19 749          | (3 660)                  | (41)                         | 149                    | (1 013)                     | (57)                             | 322                       | (515)                 | 705                       | 15 639         |
| Interest expenses from due to other banks, customer accounts and bonds issued  | (76 892)        | (16 898)                 | (4 481)                      | (11 685)               | (7 374)                     | (2 236)                          | (5 495)                   | (3 027)               | (4 265)                   | (132 353)      |
| (Provision)/recovery of provision for impairment*  | (2 814)         | (5 855)                  | (577)                        | (2 630)                | (156)                       | (6 297)                          | (121)                     | (482)                 | 10 803                    | (8 129)        |
| Administrative and maintenance expense   | (23 252)        | (1 531)                  | (442)                        | (1 227)                | (499)                       | (531)                            | (875)                     | (283)                 | (567)                     | (29 207)       |
| - Including depreciation charge  | (900)           | (204)                    | (46)                         | (162)                  | (72)                        | (89)                             | (140)                     | (36)                  | (66)                      | (1 715)        |
| Other expenses less other income*  | (2 409)         | (10 018)                 | (763)                        | (1 611)                | (4 455)                     | (5 640)                          | (4 073)                   | (45)                  | (12 398)                  | (41 412)       |
| Current income tax expense   | (1 694)         | -                        | -                            | -                      | -                           | -                                | -                         | -                     | -                         | (1 694)        |
| <b>Intersegment income/(expense)**</b>   | <b>89 209</b>   | <b>(39 336)</b>          | <b>457</b>                   | <b>(15 262)</b>        | <b>(3 578)</b>              | <b>(5 515)</b>                   | <b>(6 816)</b>            | <b>(1 342)</b>        | <b>(17 817)</b>           | <b>-</b>       |
| <b>(Loss)/profit of reportable segments</b>  | <b>(47 905)</b> | <b>16 987</b>            | <b>(706)</b>                 | <b>15 655</b>          | <b>(665)</b>                | <b>(6 422)</b>                   | <b>3 570</b>              | <b>1 691</b>          | <b>18 563</b>             | <b>768</b>     |

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

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

15 Segment Analysis (Continued)

*In millions of Russian Roubles*

|  | Head office     | Central federal district | Far-Eastern federal district | Volga federal district | North-West federal district | North-Caucasian federal district | Siberian federal district | Ural federal district | Southern federal district | Total          |
|--|-----------------|--------------------------|------------------------------|------------------------|-----------------------------|----------------------------------|---------------------------|-----------------------|---------------------------|----------------|
| <b>For the nine months ended 30 September 2016 (unaudited)</b>   |                 |                          |                              |                        |                             |                                  |                           |                       |                           |                |
| <b>Revenue from external customers</b>   | <b>36 840</b>   | <b>56 258</b>            | <b>6 045</b>                 | <b>34 500</b>          | <b>15 227</b>               | <b>9 265</b>                     | <b>15 700</b>             | <b>6 105</b>          | <b>22 381</b>             | <b>202 321</b> |
| - Interest income from loans and advances to customers, due from other banks and other placed funds                    | 36 364          | 51 671                   | 5 397                        | 31 996                 | 14 017                      | 8 314                            | 14 041                    | 5 657                 | 20 957                    | 188 414        |
| - Net fee and commission income from credit related operations   | 476             | 4 587                    | 648                          | 2 504                  | 1 210                       | 951                              | 1 659                     | 448                   | 1 424                     | 13 907         |
| Gains less losses/(losses net of gains) arising from securities, derivative financial instruments and foreign currency | 29 972          | (19 060)                 | 342                          | 619                    | (430)                       | 402                              | 315                       | (3 347)               | (3 459)                   | 5 354          |
| Interest expenses from due to other banks, customer accounts and bonds issued  | (87 694)        | (16 120)                 | (3 914)                      | (10 212)               | (8 434)                     | (2 309)                          | (4 621)                   | (2 346)               | (4 251)                   | (139 901)      |
| (Provision)/recovery of provision for impairment*  | (1 052)         | 5 432                    | 13                           | 3 837                  | 5 545                       | (1 222)                          | (725)                     | (464)                 | 3 178                     | 14 542         |
| Administrative and maintenance expense   | (22 097)        | (2 775)                  | (438)                        | (1 284)                | (548)                       | (564)                            | (893)                     | (278)                 | (563)                     | (29 440)       |
| - Including depreciation charge  | (864)           | (224)                    | (55)                         | (188)                  | (80)                        | (101)                            | (152)                     | (37)                  | (79)                      | (1 780)        |
| Other expenses less other income*  | (1 696)         | (19 608)                 | (575)                        | (10 213)               | (6 360)                     | (2 764)                          | (1 657)                   | (451)                 | (7 969)                   | (51 293)       |
| Current income tax expense   | (1 487)         | -                        | -                            | -                      | -                           | -                                | -                         | -                     | -                         | (1 487)        |
| Deferred income tax credit   | 20              | -                        | -                            | -                      | -                           | -                                | -                         | -                     | -                         | 20             |
| <b>Intersegment income/(expense)**</b>   | <b>60 199</b>   | <b>(12 159)</b>          | <b>(858)</b>                 | <b>(17 417)</b>        | <b>(4 218)</b>              | <b>(6 260)</b>                   | <b>(8 752)</b>            | <b>1 225</b>          | <b>(11 760)</b>           | <b>-</b>       |
| <b>(Loss)/profit of reportable segments</b>  | <b>(47 194)</b> | <b>4 127</b>             | <b>1 473</b>                 | <b>17 247</b>          | <b>5 000</b>                | <b>2 808</b>                     | <b>8 119</b>              | <b>(781)</b>          | <b>9 317</b>              | <b>116</b>     |
| <b>Total assets</b>  |                 |                          |                              |                        |                             |                                  |                           |                       |                           |                |
| 30 September 2017 (unaudited)  | 1 813 876       | 770 109                  | 103 116                      | 418 306                | 207 404                     | 121 990                          | 191 178                   | 107 112               | 278 862                   | 4 011 953      |
| 31 December 2016   | 2 377 777       | 959 545                  | 88 717                       | 445 551                | 243 212                     | 155 549                          | 200 360                   | 121 400               | 323 305                   | 4 915 416      |

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

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

**15 Segment Analysis (Continued)**

Segment reporting of the Group's revenue and (loss)/profit for the three months ended 30 September 2017 and for the three months ended 30 September 2016 are as follows:

| <i>In millions of Russian Roubles</i>  | Head office     | Central federal district | Far-Eastern federal district | Volga federal district | North-West federal district | North-Caucasian federal district | Siberian federal district | Ural federal district | Southern federal district | Total         |
|--|-----------------|--------------------------|------------------------------|------------------------|-----------------------------|----------------------------------|---------------------------|-----------------------|---------------------------|---------------|
| <b>For the three months ended 30 September 2017 (unaudited)</b>  |                 |                          |                              |                        |                             |                                  |                           |                       |                           |               |
| <b>Revenue from external customers</b>   | <b>14 563</b>   | <b>18 463</b>            | <b>1 984</b>                 | <b>10 697</b>          | <b>4 277</b>                | <b>2 608</b>                     | <b>4 675</b>              | <b>2 055</b>          | <b>8 444</b>              | <b>67 766</b> |
| - Interest income from loans and advances to customers, due from other banks and other placed funds                    | 14 251          | 16 744                   | 1 691                        | 9 535                  | 3 800                       | 2 205                            | 3 977                     | 1 845                 | 7 778                     | 61 826        |
| - Net fee and commission income from credit related operations   | 312             | 1 719                    | 293                          | 1 162                  | 477                         | 403                              | 698                       | 210                   | 666                       | 5 940         |
| Gains less losses/(losses net of gains) arising from securities, derivative financial instruments and foreign currency | 3 786           | (1 215)                  | (166)                        | 151                    | (273)                       | (5)                              | 300                       | (258)                 | (4)                       | 2 316         |
| Interest expenses from due to other banks, customer accounts and bonds issued  | (23 573)        | (5 847)                  | (1 698)                      | (4 111)                | (2 697)                     | (758)                            | (1 935)                   | (1 156)               | (1 438)                   | (43 213)      |
| (Provision)/recovery of provision for impairment*  | 87              | (3 467)                  | (267)                        | (1 069)                | (1 079)                     | (472)                            | 586                       | (73)                  | 7 508                     | 1 754         |
| Administrative and maintenance expense   | (7 496)         | (476)                    | (156)                        | (399)                  | (167)                       | (182)                            | (288)                     | (94)                  | (185)                     | (9 443)       |
| - Including depreciation charge  | (307)           | (63)                     | (15)                         | (51)                   | (23)                        | (28)                             | (45)                      | (12)                  | (19)                      | (563)         |
| Other expenses less other income*  | (887)           | (3 498)                  | (95)                         | (264)                  | (1 390)                     | (2 159)                          | (1 988)                   | 19                    | (8 104)                   | (18 366)      |
| Current income tax expense   | (659)           | -                        | -                            | -                      | -                           | -                                | -                         | -                     | -                         | (659)         |
| <b>Intersegment income/(expense)**</b>   | <b>35 913</b>   | <b>(19 840)</b>          | <b>481</b>                   | <b>(5 276)</b>         | <b>(1 662)</b>              | <b>(1 782)</b>                   | <b>(2 265)</b>            | <b>(264)</b>          | <b>(5 305)</b>            | <b>-</b>      |
| <b>(Loss)/profit of reportable segments</b>  | <b>(14 179)</b> | <b>3 960</b>             | <b>(398)</b>                 | <b>5 005</b>           | <b>(1 329)</b>              | <b>(968)</b>                     | <b>1 350</b>              | <b>493</b>            | <b>6 221</b>              | <b>155</b>    |

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

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

**15 Segment Analysis (Continued)**

|  | Head office     | Central federal district | Far-Eastern federal district | Volga federal district | North-West federal district | North-Caucasian federal district | Siberian federal district | Ural federal district | Southern federal district | Total           |
|--|-----------------|--------------------------|------------------------------|------------------------|-----------------------------|----------------------------------|---------------------------|-----------------------|---------------------------|-----------------|
| <i>In millions of Russian Roubles</i>  |                 |                          |                              |                        |                             |                                  |                           |                       |                           |                 |
| <b>For the three months ended 30 September 2016 (unaudited)</b>  |                 |                          |                              |                        |                             |                                  |                           |                       |                           |                 |
| <b>Revenue from external customers</b>   | <b>11 968</b>   | <b>18 799</b>            | <b>2 041</b>                 | <b>11 653</b>          | <b>4 984</b>                | <b>2 806</b>                     | <b>5 561</b>              | <b>2 165</b>          | <b>7 710</b>              | <b>67 687</b>   |
| - Interest income from loans and advances to customers, due from other banks and other placed funds                    | 11 934          | 17 204                   | 1 796                        | 10 707                 | 4 575                       | 2 488                            | 4 957                     | 1 993                 | 7 160                     | <b>62 814</b>   |
| - Net fee and commission income from credit related operations   | 34              | 1 595                    | 245                          | 946                    | 409                         | 318                              | 604                       | 172                   | 550                       | <b>4 873</b>    |
| Gains less losses/(losses net of gains) arising from securities, derivative financial instruments and foreign currency | 1 637           | (1 857)                  | 76                           | 166                    | 202                         | 2                                | 74                        | (370)                 | (110)                     | <b>(180)</b>    |
| Interest expenses from due to other banks, customer accounts and bonds issued  | (28 661)        | (5 093)                  | (1 320)                      | (3 319)                | (3 175)                     | (743)                            | (1 546)                   | (838)                 | (1 295)                   | <b>(45 990)</b> |
| (Provision)/recovery of provision for impairment*  | 32              | (1 341)                  | 436                          | (3 368)                | 1 306                       | 141                              | 109                       | 132                   | 921                       | <b>(1 632)</b>  |
| Administrative and maintenance expense   | (8 069)         | (576)                    | (154)                        | (427)                  | (188)                       | (181)                            | (300)                     | (91)                  | (188)                     | <b>(10 174)</b> |
| - Including depreciation charge  | (295)           | (74)                     | (18)                         | (61)                   | (27)                        | (32)                             | (49)                      | (13)                  | (26)                      | <b>(595)</b>    |
| Other expenses less other income*  | (598)           | (2 381)                  | (403)                        | (936)                  | (1 592)                     | (981)                            | (982)                     | (209)                 | (1 778)                   | <b>(9 860)</b>  |
| Current income tax expense   | (626)           | -                        | -                            | -                      | -                           | -                                | -                         | -                     | -                         | <b>(626)</b>    |
| Deferred income tax credit   | 20              | -                        | -                            | -                      | -                           | -                                | -                         | -                     | -                         | <b>20</b>       |
| <b>Intersegment income/(expense)**</b>   | <b>27 248</b>   | <b>(9 125)</b>           | <b>(219)</b>                 | <b>(6 082)</b>         | <b>(1 332)</b>              | <b>(1 914)</b>                   | <b>(2 871)</b>            | <b>(308)</b>          | <b>(5 397)</b>            | <b>-</b>        |
| <b>(Loss)/profit of reportable segments</b>  | <b>(24 297)</b> | <b>7 551</b>             | <b>676</b>                   | <b>3 769</b>           | <b>1 537</b>                | <b>1 044</b>                     | <b>2 916</b>              | <b>789</b>            | <b>5 260</b>              | <b>(755)</b>    |

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

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



## 15 Segment Analysis (Continued)

Reconciliation of profit/(loss) of the reportable segments results is as follows:

| <i>(Unaudited)</i>   | For the nine months<br>ended 30 September |                 | For the three months<br>ended 30 September |                |
|--|---|-----------------|--|----------------|
| <i>In millions of Russian Roubles</i>  | 2017                                      | 2016            | 2017                                       | 2016           |
| <b>Total profit/(loss) of reportable segments (after tax)</b>  | <b>768</b>                                | <b>116</b>      | <b>155</b>                                 | <b>(755)</b>   |
| Adjustments of provision for impairment  | 267                                       | (24 356)        | (118)                                      | (5 804)        |
| Results of non-reportable segments, including the effect of consolidation*   | (4 022)                                   | (5 088)         | (1 247)                                    | 693            |
| Accounting for financial instruments at fair value   | (8 383)                                   | 2 341           | (1 765)                                    | (1 027)        |
| Adjustment of deferred tax   | 460                                       | 726             | 1 093                                      | (129)          |
| Gains less losses/(losses net of gains) from revaluation of other financial instruments at fair value through profit or loss | 86  | (253)           | 20   | 39             |
| Adjustment of accrued staff costs  | (25)                                      | (867)           | (133)                                      | 469            |
| Adjustments of financial assets and liabilities carried at amortised cost  | 442                                       | (6 626)         | 779  | (3 225)        |
| Other  | (1 847)                                   | (1 102)         | (239)                                      | (109)          |
| <b>The Group's loss under IFRS (after tax)</b>   | <b>(12 254)</b>                           | <b>(35 109)</b> | <b>(1 455)</b>                             | <b>(9 848)</b> |

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

Adjustments of provision for impairment are related to the difference between the methodology applied to calculate provisions for loan impairment under RAR used for preparation of management reporting and the methodology used for IFRS reporting. The provision under RAR is calculated based mainly on formal criteria depending on the financial position of the borrower, quality of debt service and collateral, whereas the provision under IFRS requirement is calculated based on incurred loss model.

Adjustments of derivative financial instruments to their fair value arise from the difference in the accounting treatment of currency swaps under RAR (which are the basis for management reporting) and IFRS reporting. Under RAR foreign exchange swaps are recognized as back-to-back deposits, whereas in IFRS financial statements such transactions are recognized at fair value. Refer to Note 17. Providing reconciliation, accounting for deals described above under RAR assumes also adjustments related to interest income/expense and total assets of reportable segments.

Adjustments to financial assets and liabilities carried at amortised cost resulted from accruals of interest income/expenses using effective interest rate method in IFRS, whereas there is nominal rate accrual approach used under RAR.

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

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

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

## 16 Contingencies and Commitments

**Legal proceedings.** From time to time in the normal course of business, claims against the Group are received. As at 30 September 2017, based on its own estimates and both internal and external professional advice the Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no material provision for cover of such losses has been made in these interim condensed consolidated financial statements (31 December 2016: Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no material provision for cover of such losses has been made in annual consolidated financial statements).

## 16 Contingencies and Commitments (Continued)

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

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

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

During nine months ended 30 September 2017, the Group determined its tax liabilities arising from the “controlled” transactions using actual transaction prices.

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

As at 30 September 2017, the Management of the Group believes that its interpretation of the applicable legislation is reasonable and will be sustained.

**Capital expenditure commitments.** As at 30 September 2017, the Group has contractual capital expenditure commitments of RR 726 million (31 December 2016: RR 802 million).

**Operating lease commitments.** Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

| <i>In millions of Russian Roubles</i>        | <b>30 September<br/>2017<br/>(unaudited)</b> | <b>31 December<br/>2016</b> |
|--|--|-----------------------------|
| Not later than 1 year                        | 3 773  | 5 281                       |
| Later than 1 year and not later than 5 years | 3 713  | 4 701                       |
| Later than 5 years                           | 1 849  | 1 067                       |
| <b>Total operating lease commitments</b>     | <b>9 335</b>                                 | <b>11 049</b>               |

**Compliance with covenants.** The Group is subject to certain covenants primarily relating to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including an increase of the borrowing costs and announcement of the default. The Group’s Management believes that the Group is in compliance with the covenants.

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

## 16 Contingencies and Commitments (Continued)

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

Outstanding credit related commitments are as follows:

| <i>In millions of Russian Roubles</i>   | <b>30 September<br/>2017<br/>(unaudited)</b> | <b>31 December<br/>2016</b> |
|---|--|-----------------------------|
| Financial guarantees issued             | 187 200                                      | 105 257                     |
| Undrawn credit lines                    | 67 752                                       | 117 963                     |
| Letters of credit                       | 7 940  | 7 014                       |
| Less: provision for impairment          | (342)  | (339)                       |
| <b>Total credit related commitments</b> | <b>262 550</b>                               | <b>229 895</b>              |

Analysis of the movements in the provision for impairment of credit related commitments is as follows:

| <i>(Unaudited)</i><br><i>In millions of Russian Roubles</i>                                       | <b>For the<br/>nine months ended<br/>30 September 2017</b> | <b>For the<br/>nine months ended<br/>30 September 2016</b> |
|---|--|--|
| <b>Provision for impairment at 1 January</b>  | <b>339</b>   | <b>100</b>   |
| Provision/(recovery of provision) for impairment for credit related commitments during the period | 3  | (56)   |
| <b>Provision for impairment at 30 September</b>   | <b>342</b>   | <b>44</b>  |

Undrawn credit lines are represented by revocable credit lines. The Group has the right to revoke unused portion of credit line in response to a material adverse change of the borrower. As at 30 September 2017 and 31 December 2016, there were no grounds for cancellation of disclosed amount of unused credit lines.

The total outstanding contractual amount of revocable 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.

Credit related commitments are denominated in currencies as follows:

| <i>In millions of Russian Roubles</i>   | <b>30 September<br/>2017<br/>(unaudited)</b> | <b>31 December<br/>2016</b> |
|---|--|-----------------------------|
| Russian Roubles                         | 208 130                                      | 222 046                     |
| Euros                                   | 51 251                                       | 6 054                       |
| US Dollars                              | 3 169  | 1 795                       |
| <b>Total credit related commitments</b> | <b>262 550</b>                               | <b>229 895</b>              |

## 16 Contingencies and Commitments (Continued)

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

| <i>In millions of Russian Roubles</i>                            | 30 September<br>2017<br>(unaudited) | 31 December<br>2016 |
|--|-------------------------------------|---------------------|
| Assets pledged under loan agreements with banks (including CBRF) | 27 174                              | 28 469              |
| Security deposit under the lease agreement                       | 202                                 | 202                 |

As at 30 September 2017, mandatory cash balances with the CBRF of RR 17 413 million (31 December 2016: RR 11 266 million) represent mandatory reserve deposits which are not available to finance the Group's day to day operations.

As at 30 September 2017 and 31 December 2016, assets pledged under loan agreements with banks (including CBRF) mainly include loans and advances to customers pledged to CBRF under loan agreements in accordance with the CBRF Act # 312-P *On the Procedures of Granting Loans Secured by Assets or Guarantees by CBRF to Credit Organisations* dated 12 November 2007.

## 17 Derivative Financial Instruments

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

As at 30 September 2017, in the aggregate amount of foreign exchange swaps with original settlement dates of more than 30 working days prevails swaps structured as loans issued by the Group in US Dollars and Japanese yens (31 December 2016: in US Dollars and Japanese yens) to six large OECD banks and one Russian banking group with maturities from December 2017 to May 2023, and deposits in Russian Roubles received from the same counterparties with the same maturities ("back-to-back loans"). These transactions are aimed at economically hedging the currency exposure of the Group.

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

As at 30 September 2017, international credit ratings of these counterparties were not less than BB+ (S&P) (31 December 2016: not less than BB- (S&P)).

Interest rate swaps entered into by the Group has underlying assets of RR floating interest rates and are entered into with the aim of interest rate risk management.

**17 Derivative Financial Instruments (Continued)**

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions as at 30 September 2017 and covers the contracts with settlement dates after the respective end of the reporting period:

| <i>(Unaudited)</i><br><i>In millions of Russian Roubles</i> | Principal or<br>agreed<br>amount at fair<br>value of<br>assets<br>receivable | Principal or<br>agreed<br>amount at fair<br>value of<br>assets<br>payable | Positive<br>fair value | Negative<br>fair value |
|---|--|---|------------------------|------------------------|
| <b>Forwards and swaps</b>                                   |  |   |                        |                        |
| - Currency  | 250 893  | (177 328)   | 76 861                 | (3 296)                |
| - Precious metals   | 955  | (959)   | -                      | (4)                    |
| - Interest rate   | 255  | (256)   | 162                    | (163)                  |
| <b>Options</b>  | 9 783  | (10 098)  | 196                    | (511)                  |
| <b>Contracts with securities</b>                            | 4 311  | (4 311)   | 1                      | (1)                    |
| <b>Futures</b>  |  |   |                        |                        |
| - Commodity   | 101  | (101)   | -                      | -                      |
| <b>Total derivative financial instruments</b>               | <b>266 298</b>   | <b>(193 053)</b>  | <b>77 220</b>          | <b>(3 975)</b>         |

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions as at 31 December 2016 and covers the contracts with settlement dates after the respective end of the reporting period:

| <i>In millions of Russian Roubles</i>         | Principal or<br>agreed<br>amount at fair<br>value of<br>assets<br>receivable | Principal or<br>agreed<br>amount at fair<br>value of<br>assets<br>payable | Positive<br>fair value | Negative<br>fair value |
|---|--|---|------------------------|------------------------|
| <b>Forwards and swaps</b>                     |  |   |                        |                        |
| - Currency                                    | 298 559  | (179 595)   | 119 756                | (792)                  |
| - Precious metals                             | 164  | (167)   | -                      | (3)                    |
| - Interest rate                               | 1 169  | (1 120)   | 306                    | (257)                  |
| <b>Contracts with securities</b>              | 1 541  | (1 542)   | -                      | (1)                    |
| <b>Futures</b>                                |  |   |                        |                        |
| - Index                                       | 141  | (141)   | -                      | -                      |
| - Currency                                    | 124  | (124)   | -                      | -                      |
| - Commodity                                   | 57   | (57)  | -                      | -                      |
| <b>Total derivative financial instruments</b> | <b>301 755</b>   | <b>(182 746)</b>  | <b>120 062</b>         | <b>(1 053)</b>         |

As at 30 September 2017, the Group had one foreign exchange swap with one foreign bank with rating at A+ (S&P) with fair value above 10% of the Group's equity (31 December 2016: three foreign exchange swaps with two foreign banks and one Russian bank with rating not lower than BB- (S&P) with fair value each individually above 10% of the Group's equity). As at 30 September 2017, receivables and payables on settlement of these foreign exchange swaps amounted to RR 30 703 million and RR 12 146 million, respectively, or 20% of total receivables or 15% of total payables on settlement of foreign exchange swaps (31 December 2016: RR 160 099 million and RR 73 788 million, respectively, or 71% of total receivables or 69% of total payables on settlement of foreign exchange swaps).

Refer to Note 18 for the disclosure of fair value hierarchy for derivative financial instruments. The information on related party transactions is disclosed in Note 19.

## 18 Fair Value of Financial Instruments

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

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

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

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

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

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

**Held to maturity securities carried at amortised cost.** The fair value for held to maturity securities and securities held to maturity pledged under repurchase agreements is based on quoted market prices and valuation techniques with all material inputs observable.

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

## 18 Fair Value of Financial Instruments (Continued)

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

| <i>In millions of Russian Roubles</i>  | 30 September 2017<br>(unaudited) |                  | 31 December 2016 |                  |
|--|----------------------------------|------------------|------------------|------------------|
|  | Carrying amount                  | Fair value       | Carrying amount  | Fair value       |
| <b>Financial assets carried at amortised cost</b>                                      |                                  |                  |                  |                  |
| Cash and cash equivalents  | 287 719                          | 287 719          | 326 033          | 326 033          |
| Mandatory cash balances with the CBRF  | 17 413                           | 17 413           | 11 266           | 11 266           |
| Due from other banks   | 60 932                           | 61 169           | 55 491           | 55 448           |
| Loans and advances to customers  |                                  |                  |                  |                  |
| - Loans to corporates  | 1 409 427                        | 1 416 592        | 1 270 289        | 1 261 375        |
| - Lending for food interventions   | 38 312                           | 38 312           | 33 921           | 33 921           |
| - Reverse repo agreements  | -                                | -                | -                | -                |
| - Investments in agricultural cooperatives   | 291                              | 291              | 346              | 346              |
| - Loans to individuals   | 331 208                          | 366 267          | 313 381          | 326 406          |
| Investment securities held to maturity   |                                  |                  |                  |                  |
| - Corporate bonds  | 27 370                           | 27 053           | 7 975            | 7 745            |
| - Municipal and subfederal bonds   | 17 827                           | 17 874           | 1 501            | 1 515            |
| - Federal Loan bonds (OFZ)   | 1 965                            | 1 854            | 2 154            | 1 967            |
| Other financial assets   | 28 800                           | 28 800           | 10 258           | 10 258           |
| <b>Total financial assets carried at amortised cost</b>                                | <b>2 221 264</b>                 | <b>2 263 344</b> | <b>2 032 615</b> | <b>2 036 280</b> |
| <b>Financial assets carried at fair value</b>  | <b>378 531</b>                   | <b>378 531</b>   | <b>379 885</b>   | <b>379 885</b>   |
| <b>Total financial assets</b>  | <b>2 599 795</b>                 | <b>2 641 875</b> | <b>2 412 500</b> | <b>2 416 165</b> |
| <b>Financial liabilities carried at amortised cost</b>                                 |                                  |                  |                  |                  |
| Due to other banks:  |                                  |                  |                  |                  |
| - Term borrowings from other banks   | 31 751                           | 33 706           | 41 759           | 44 346           |
| - Term borrowings from the CBRF  | 22 273                           | 21 962           | 28 935           | 28 421           |
| - Correspondent accounts and overnight placements of other banks                       | 3 802                            | 3 802            | 7 900            | 7 900            |
| Customer accounts:   |                                  |                  |                  |                  |
| - State and public organisations   | 460 050                          | 460 348          | 392 958          | 393 134          |
| - Other legal entities   | 654 313                          | 655 497          | 571 778          | 573 084          |
| - Individuals  | 787 393                          | 789 877          | 613 031          | 612 192          |
| Promissory notes issued  | 30 637                           | 30 637           | 13 761           | 13 761           |
| Bonds issued:  |                                  |                  |                  |                  |
| - Eurobonds issued   | 186 626                          | 190 437          | 294 941          | 303 058          |
| - Bonds issued on domestic market  | 138 059                          | 141 481          | 160 943          | 165 056          |
| Other financial liabilities  | 6 789                            | 6 789            | 4 885            | 4 885            |
| <b>Total financial liabilities carried at amortised cost before subordinated debts</b> | <b>2 321 693</b>                 | <b>2 334 536</b> | <b>2 130 891</b> | <b>2 145 837</b> |
| Subordinated debts   | 137 247                          | 145 353          | 153 124          | 158 940          |
| <b>Total financial liabilities carried at amortised cost</b>                           | <b>2 458 940</b>                 | <b>2 479 889</b> | <b>2 284 015</b> | <b>2 304 777</b> |
| <b>Financial liabilities carried at fair value</b>                                     | <b>3 975</b>                     | <b>3 975</b>     | <b>1 053</b>     | <b>1 053</b>     |
| <b>Total financial liabilities</b>   | <b>2 462 915</b>                 | <b>2 483 864</b> | <b>2 285 068</b> | <b>2 305 830</b> |

## 18 Fair Value of Financial Instruments (Continued)

### (b) Analysis by fair value hierarchy of financial instruments

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

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

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

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

Analysis of financial and non-financial instruments as at 30 September 2017 is as follows:

| <b>(Unaudited)</b><br><i>In millions of Russian Roubles</i>              | <b>Quoted price<br/>in an active<br/>market<br/>(Level 1)</b> | <b>Valuation<br/>technique<br/>with inputs<br/>observable<br/>in markets<br/>(Level 2)</b> | <b>Valuation<br/>technique<br/>with non-<br/>observable<br/>inputs<br/>(Level 3)</b> | <b>Total</b>     |
|--|---|--|--|------------------|
| <b>Assets measured at fair value</b>                                     |   |  |  |                  |
| Trading securities   | 26 440  | -  | -  | 26 440           |
| Financial instruments designated at fair value<br>through profit or loss | -   | 1 994  | -  | 1 994            |
| Investment securities available for sale                                 | 222 458   | 50 419   | -  | 272 877          |
| Derivative financial instruments   | -   | 77 220   | -  | 77 220           |
| Office premises  | -   | -  | 8 943  | 8 943            |
| <b>Assets for which fair values are disclosed</b>                        |   |  |  |                  |
| Cash and cash equivalents  | -   | 287 719  | -  | 287 719          |
| Mandatory cash balances with the CBRF                                    | -   | -  | 17 413   | 17 413           |
| Due from other banks   | -   | 61 169   | -  | 61 169           |
| Loans and advances to customers  | -   | -  | 1 821 462  | 1 821 462        |
| Investment securities held to maturity                                   | 42 450  | 4 331  | -  | 46 781           |
| Other financial assets carried at amortised cost                         | -   | -  | 28 800   | 28 800           |
| <b>Total financial and non-financial assets</b>                          | <b>291 348</b>  | <b>482 852</b>   | <b>1 876 618</b>   | <b>2 650 818</b> |
| <b>Liabilities measured at fair value</b>                                |   |  |  |                  |
| Derivative financial instruments   | -   | 3 975  | -  | 3 975            |
| <b>Liabilities for which fair values are disclosed</b>                   |   |  |  |                  |
| Due to other banks   | -   | 59 470   | -  | 59 470           |
| Customer accounts  | -   | -  | 1 905 722  | 1 905 722        |
| Promissory notes issued  | -   | -  | 30 637   | 30 637           |
| Bonds issued:  |   |  |  |                  |
| - Eurobonds issued   | 190 437   | -  | -  | 190 437          |
| - Bonds issued on domestic market  | 129 187   | 12 294   | -  | 141 481          |
| Other financial liabilities  | -   | -  | 6 789  | 6 789            |
| <b>Total financial liabilities before subordinated<br/>debts</b>         | <b>319 624</b>  | <b>75 739</b>  | <b>1 943 148</b>   | <b>2 338 511</b> |
| Subordinated debts   | 39 111  | 106 242  | -  | 145 353          |
| <b>Total financial liabilities</b>                                       | <b>358 735</b>  | <b>181 981</b>   | <b>1 943 148</b>   | <b>2 483 864</b> |



## 18 Fair Value of Financial Instruments (Continued)

Analysis of financial and non-financial instruments as at 31 December 2016 is as follows:

| <i>In millions of Russian Roubles</i>                                    | Quoted price<br>in an active<br>market<br>(Level 1) | Valuation<br>technique<br>with inputs<br>observable<br>in markets<br>(Level 2) | Valuation<br>technique<br>with non-<br>observable<br>inputs<br>(Level 3) | Total            |
|--|---|--|--|------------------|
| <b>Assets measured at fair value</b>                                     |   |  |  |                  |
| Trading securities   | 25 040  | -  | -  | 25 040           |
| Financial instruments designated at fair value<br>through profit or loss | -   | 2 374  | -  | 2 374            |
| Investment securities available for sale                                 | 188 323   | 44 086   | -  | 232 409          |
| Derivative financial instruments   | -   | 120 062  | -  | 120 062          |
| Office premises  | -   | -  | 7 415  | 7 415            |
| <b>Assets for which fair values are disclosed</b>                        |   |  |  |                  |
| Cash and cash equivalents  | -   | 326 033  | -  | 326 033          |
| Mandatory cash balances with the CBRF                                    | -   | -  | 11 266   | 11 266           |
| Due from other banks   | -   | 55 448   | -  | 55 448           |
| Loans and advances to customers  | -   | -  | 1 622 048  | 1 622 048        |
| Investment securities held to maturity                                   | 8 282   | 2 945  | -  | 11 227           |
| Other financial assets carried at amortised cost                         | -   | -  | 10 258   | 10 258           |
| <b>Total financial and non-financial assets</b>                          | <b>221 645</b>                                      | <b>550 948</b>   | <b>1 650 987</b>   | <b>2 423 580</b> |
| <b>Liabilities measured at fair value</b>                                |   |  |  |                  |
| Derivative financial instruments   | -   | 1 053  | -  | 1 053            |
| <b>Liabilities for which fair values are disclosed</b>                   |   |  |  |                  |
| Due to other banks   | -   | 80 667   | -  | 80 667           |
| Customer accounts  | -   | -  | 1 578 410  | 1 578 410        |
| Promissory notes issued  | -   | -  | 13 761   | 13 761           |
| Bonds issued:  |   |  |  |                  |
| - Eurobonds issued   | 303 058   | -  | -  | 303 058          |
| - Bonds issued on domestic market  | 159 576   | 5 480  | -  | 165 056          |
| Other financial liabilities  | -   | -  | 4 885  | 4 885            |
| <b>Total financial liabilities before subordinated<br/>debts</b>         | <b>462 634</b>                                      | <b>87 200</b>  | <b>1 597 056</b>   | <b>2 146 890</b> |
| Subordinated debts   | 39 045  | 119 895  | -  | 158 940          |
| <b>Total financial liabilities</b>                                       | <b>501 679</b>                                      | <b>207 095</b>   | <b>1 597 056</b>   | <b>2 305 830</b> |

There were no financial instruments carried at fair value based on a valuation technique with non-observable inputs (Level 3) as at 30 September 2017 (31 December 2016: none).

## 18 Fair Value of Financial Instruments (Continued)

The table below reflects transfers of financial instruments measured at fair value between Level 1 and Level 2 of the fair value hierarchy during nine months ended 30 September 2017:

| <i>(Unaudited)</i><br>In millions of Russian Roubles | Transfers between Level 1 and Level 2 |                         |
|--|---------------------------------------|-------------------------|
|  | From Level 1 to Level 2               | From Level 2 to Level 1 |
| <b>Financial assets</b>                              |                                       |                         |
| Investment securities available for sale             | 4 561                                 | -                       |
| <b>Total transfers of financial assets</b>           | <b>4 561</b>                          | <b>-</b>                |

The table below reflects transfers of financial instruments measured at fair value between Level 1 and Level 2 of the fair value hierarchy during 2016:

| In millions of Russian Roubles             | Transfers between Level 1 and Level 2 |                         |
|--|---------------------------------------|-------------------------|
|  | From Level 1 to Level 2               | From Level 2 to Level 1 |
| <b>Financial assets</b>                    |                                       |                         |
| Investment securities available for sale   | 2 266                                 | 48 094                  |
| <b>Total transfers of financial assets</b> | <b>2 266</b>                          | <b>48 094</b>           |

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

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

There were no other transfers between levels of the fair value hierarchy during nine months ended 30 September 2017 and during the year ended 31 December 2016.

The following table shows the quantitative information as at 30 September 2017 about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

| Assets  | Fair value,<br>in millions of<br>Russian Roubles | Valuation technique | Inputs used    |      |       |
|---|--|---------------------|----------------|------|-------|
|   |  |                     | Input          | Min  | Max   |
| Office premises (based on valuation at 31 December 2015, fair value of new objects acquired in 2016 and 2017 equals to current value) | 8 943  | Comparative method  | Trade discount | 8.0% | 20.0% |

The following table shows the quantitative information as at 31 December 2016 about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

| Assets   | Fair value,<br>in millions of<br>Russian Roubles | Valuation technique | Inputs used    |      |       |
|--|--|---------------------|----------------|------|-------|
|  |  |                     | Input          | Min  | Max   |
| Office premises (based on valuation at 31 December 2015, fair value of new objects acquired in 2016 equals to current value) | 7 415  | Comparative method  | Trade discount | 8.0% | 20.0% |

## 19 Related Party Transactions

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

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

The outstanding balances with related parties were as follows:

| <i>In millions of Russian Roubles</i>  | <b>30 September<br/>2017<br/>(unaudited)</b> | <b>31 December<br/>2016</b> |
|--|--|-----------------------------|
| <b>Cash and cash equivalents</b>   |  |                             |
| CBRF   | 163 024                                      | 128 335                     |
| Other banks  | 11 624                                       | 110 097                     |
| <b>Loans and advances to customers</b>   |  |                             |
| Loans and advances to customers (before impairment)                                | 169 456                                      | 59 782                      |
| Less: provision for loan impairment  | (3 779)                                      | (2 961)                     |
| Derivative financial instruments — assets  | 14 595                                       | 17 145                      |
| <b>Securities</b>  |  |                             |
| Securities issued by Russian Federation  | 144 809                                      | 148 091                     |
| Securities of entities and banks   | 124 802                                      | 50 584                      |
| Due from other banks   | 35 659                                       | 28 510                      |
| <b>Other assets</b>  |  |                             |
| Other receivables  | 21 093                                       | 5 884                       |
| Accrued subsidies under the government program to subsidize mortgage and car loans | 5  | 432                         |
| <b>Customer accounts</b>   |  |                             |
| Entities   | 619 130                                      | 508 515                     |
| Key management and their family members  | 2 175  | 1 565                       |
| <b>Due to other banks</b>  |  |                             |
| CBRF   | 22 273                                       | 28 930                      |
| Other banks  | 12 940                                       | 13 286                      |
| Derivative financial instruments — liabilities                                     | 28   | 100                         |
| Subordinated debts   | 68 248                                       | 70 524                      |
| <b>Credit related commitments</b>  |  |                             |
| Undrawn credit lines   | 24 247                                       | 71 133                      |
| Financial guarantees issued  | 6 568  | 9 044                       |
| Financial guarantees received  | 29 632                                       | 22 721                      |

## 19 Related Party Transactions (Continued)

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

| <b>(Unaudited)</b><br><i>In millions of Russian Roubles</i> | <b>For the nine months<br/>ended 30 September</b> |             | <b>For the three months<br/>ended 30 September</b> |             |
|---|---|-------------|--|-------------|
|   | <b>2017</b>                                       | <b>2016</b> | <b>2017</b>  | <b>2016</b> |
| <b>Interest income on cash and cash equivalents</b>         |   |             |  |             |
| CBRF  | 6 508   | 748         | 2 454  | 200         |
| Other banks   | 1 768   | 6 203       | 1 015  | 3 812       |
| <hr/>   |   |             |  |             |
| Interest income on due from other banks                     | 1 988   | 820         | 333  | 17          |
| <hr/>   |   |             |  |             |
| Interest income on loans and advances to customers          | 7 929   | 8 063       | 2 090  | 2 319       |
| <hr/>   |   |             |  |             |
| <b>Interest income on securities</b>                        |   |             |  |             |
| Securities issued by Russian Federation                     | 10 860  | 10 681      | 3 415  | 3 980       |
| Securities of entities and banks                            | 4 431   | 2 894       | 2 998  | 1 175       |
| <hr/>   |   |             |  |             |
| <b>Gains less losses from securities</b>                    |   |             |  |             |
| Securities issued by Russian Federation                     | 8 921   | 1 053       | 1 117  | 144         |
| Securities of entities and banks                            | 237   | 400         | 85   | 149         |
| <hr/>   |   |             |  |             |
| Losses net of gains from derivative financial instruments   | (4 487)   | (3 454)     | (3 419)  | (1 666)     |
| <hr/>   |   |             |  |             |
| <b>Interest expense on customer accounts</b>                |   |             |  |             |
| Entities  | (33 950)  | (34 313)    | (9 536)  | (13 022)    |
| Key management and their family members                     | (90)  | (68)        | (34)   | (24)        |
| <hr/>   |   |             |  |             |
| Interest expense on subordinated debts                      | (2 612)   | (3 045)     | (831)  | (911)       |
| <hr/>   |   |             |  |             |
| <b>Interest expense on due to other banks</b>               |   |             |  |             |
| CBRF  | (1 456)   | (2 571)     | (439)  | (514)       |
| Other banks   | (406)   | (1 014)     | (106)  | (731)       |
| <hr/>   |   |             |  |             |
| <b>Administrative and other operating expenses</b>          |   |             |  |             |
| Payments to the Deposit Insurance Fund (SC DIA)             | (2 341)   | (1 526)     | (847)  | (551)       |

During nine months ended 30 September 2017, transactions with the shareholder included share capital increase, dividends, taxes paid and subsidies received under the government program to subsidize mortgage, car loans and agriculture loans.

## **19 Related Party Transactions (Continued)**

During nine months ended 30 September 2017, the Bank increased its share capital by issuing 30 000 ordinary shares with the total nominal amount of RR 30 000 million. All shares were purchased by the Bank's only shareholder — the Government of the Russian Federation represented by the Federal Agency for Managing State Property.

In July 2017, dividends were paid out to the Bank's shareholder in the amount of RR 257 million.

Key management of the Group represents members of the Supervisory Board, the Management Board and Chief Accountant of the Bank. For the nine months ended 30 September 2017 total remuneration of the key management amounted to RR 230 million (for the nine months ended 30 September 2016: RR 248 million), for the three months ended 30 September 2017: RR 57 million (for the three months ended 30 September 2016: RR 33 million).

## **20 Events after the End of the Reporting Period**

In October 2017, the Group paid the amount due under perpetual bonds in the total amount of RR 355 million.

In October 2017, the Group issued on the domestic market RR 7 000 million bonds (placed at par) maturing in September 2021 with semi-annual payments of coupon at 8.4% p.a.

In October 2017, the Group repurchased bonds denominated in RR issued on the domestic market in the amount of RR 7 180 million at the put option date.

In November 2017, the Group repurchased bonds denominated in RR issued on the domestic market in the amount of RR 5 883 million at the put option date.

In November 2017, Supervisory Board of the Bank approved increase in the share capital by issuing 20 000 ordinary shares with the total nominal amount of RR 20 000 million.