Report on Review of Interim Financial Information

Joint stock company Russian Agricultural Bank and its subsidiaries

for the three-month period ended 31 March 2017

May 2017

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улучшая мир

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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 JSC Russian Agricultural Bank and its subsidiaries, which comprise the interim consolidated statement of financial position as at 31 March 2017, the interim consolidated statement of profit or loss and other comprehensive income, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the three-month period then ended, and selected explanatory notes (interim financial information). Management of JSC 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.

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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

30 May 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.

In millions of Russian Roubles	Note	31 March 2017 (unaudited)	31 December 2016
Assets			
Cash and cash equivalents		264 173	326 033
Mandatory cash balances with the Central Bank of the Russian Federation		16 159	11 266
Trading securities		33 727	25 040
Financial instruments designated at fair value through profit or loss		1 904	2 374
Due from other banks		32 942	55 491
Derivative financial instruments	17	106 726	120 062
Loans and advances to customers	5	1 673 932	1 617 937
Investment securities available for sale		219 026	232 409
Investment securities held to maturity		19 400	11 630
Current income tax assets		483	371
Deferred income tax asset		16 149	16 298
Intangible assets		3 124	3 048
Premises and equipment		17 447	16 188
Other assets		23 630	21 294
Assets of the disposal groups held for sale and assets held for sale		2 928	3 088
Total assets		**2 431 750**	**2 462 529**
Liabilities			
Derivative financial instruments	17	3 571	1 053
Due to other banks	7	88 284	78 594
Customer accounts	8	1 562 839	1 577 767
Promissory notes issued		31 635	13 761
Bonds issued	9	410 123	455 884
Current income tax liability		266	19
Deferred income tax liability		254	239
Other liabilities		20 222	16 276
Liabilities directly associated with disposal groups held for sale		884	1 193
Total liabilities before subordinated debts		**2 118 078**	**2 144 786**
Subordinated debts		146 602	153 124
Total liabilities		**2 264 680**	**2 297 910**
Equity			
Share capital		340 598	335 598
Perpetual bonds	10	15 000	15 000
Revaluation reserve for premises		1 082	1 092
Revaluation reserve for investment securities available for sale		7 422	5 740
Accumulated loss		(197 031)	(192 807)
Equity attributable to the Bank's shareholder		**167 071**	**164 623**
Non-controlling interest		**(1)**	**(4)**
Total equity		**167 070**	**164 619**
Total liabilities and equity		**2 431 750**	**2 462 529**

Approved for issue and signed on behalf of the Management Board on 30 May 2017.

«Российский Сельскохозяйственный банк» АО «Россельхозбанк» МОСКВА

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 35 form an integral part of these interim condensed consolidated financial statements.

(Unaudited) *In millions of Russian Roubles*	**Note**	**For the three months ended 31 March 2017**	**2016**
Interest income	11	60 812	61 980
Interest expense	11	(45 982)	(48 631)
Net interest income		**14 830**	**13 349**
Provision for loan impairment		(12 368)	(13 010)
Net interest income after provision for loan impairment		**2 462**	**339**
Fee and commission income	12	4 858	3 624
Fee and commission expense	12	(440)	(387)
Gains less losses/(losses net of gains) from trading securities		367	(12)
Gains less losses from financial instruments designated at fair value through profit or loss		43	42
(Losses net of gains)/gains less losses from investment securities available for sale		(122)	299
(Losses)/recovery of losses from impairment of investment securities available for sale		(452)	29
Foreign exchange translation gains less losses		14 482	16 820
Losses net of gains from derivative financial instruments		(15 719)	(14 726)
Gains less losses from dealing in foreign currencies		1 269	1 237
Provision for credit related commitments and other assets impairment		(47)	(241)
Gains less losses from early redemption of borrowed funds		-	3
Gains from non-banking activities		2 799	2 057
Losses from non-banking activities		(2 044)	(1 844)
Loss on disposal of subsidiaries		-	(329)
Other operating income		494	696
Administrative and other operating expenses		(11 295)	(11 975)
Loss before tax		**(3 345)**	**(4 368)**
Income tax (expense)/credit		(564)	345
Loss for the period		**(3 909)**	**(4 023)**
(Loss)/profit is attributable to:			
Shareholder of the Bank		(3 912)	(4 029)
Non-controlling interest		3	6
Loss for the period		**(3 909)**	**(4 023)**
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Securities available for sale:			
- Revaluation of securities at fair value		1 981	5 820
- Realised revaluation reserve (at disposal)		122	(299)
Income tax		(421)	(1 104)
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax		**1 682**	**4 417**
Total other comprehensive income		**1 682**	**4 417**
Total other comprehensive (loss)/income for the period		**(2 227)**	**394**
Total comprehensive (loss)/income for the period is attributable to:			
Shareholder of the Bank		(2 230)	388
Non-controlling interest		3	6
Total other comprehensive (loss)/income for the period		**(2 227)**	**394**

In millions of Russian Roubles	Note	Attributable to shareholder of the Bank Share capital	Perpetual bonds	Revaluation reserve for premises	Revaluation reserve for investment securities available for sale	Accumulated loss	Total	Non-controlling interest	Total equity
Balance at 31 December 2015		**327 598**	**-**	**1 213**	**279**	**(134 018)**	**195 072**	**733**	**195 805**
(Loss)/Income for the period, net of tax		-	-	-	-	(4 029)	**(4 029)**	6	**(4 023)**
Other comprehensive income for the period, net of tax		-	-	-	4 417	-	**4 417**	-	**4 417**
Total comprehensive income/(loss) for the period, net of tax		**-**	**-**	**-**	**4 417**	**(4 029)**	**388**	**6**	**394**
Disposal of subsidiaries		-	-	-	-	-	**-**	206	**206**
Depreciation of revaluation reserve for premises		-	-	(22)	-	22	**-**	-	**-**
Balance at 31 March 2016 (unaudited)		**327 598**	**-**	**1 191**	**4 696**	**(138 025)**	**195 460**	**945**	**196 405**
Balance at 31 December 2016		**335 598**	**15 000**	**1 092**	**5 740**	**(192 807)**	**164 623**	**(4)**	**164 619**
(Loss)/income for the period, net of tax		-	-	-	-	(3 912)	**(3 912)**	3	**(3 909)**
Other comprehensive income for the period, net of tax		-	-	-	1 682	-	**1 682**	-	**1 682**
Total comprehensive income/(loss) for the period, net of tax		**-**	**-**	**-**	**1 682**	**(3 912)**	**(2 230)**	**3**	**(2 227)**
Share issue	19	5 000	-	-	-	-	**5 000**	-	**5 000**
Depreciation of revaluation reserve for premises		-	-	(10)	-	10	**-**	-	**-**
Amounts due under perpetual bonds (coupon accrued)	10	-	-	-	-	(403)	**(403)**	-	**(403)**
Tax effect recognized on perpetual bonds		-	-	-	-	81	**81**	-	**81**
Balance at 31 March 2017 (unaudited)		**340 598**	**15 000**	**1 082**	**7 422**	**(197 031)**	**167 071**	**(1)**	**167 070**

(Unaudited) *In millions of Russian Roubles*	Note	For the three months ended 31 March 2017	2016
Cash flows from operating activities			
Interest received		66 488	59 681
Interest paid		(41 868)	(41 599)
Income received from trading in securities and financial instruments designated at fair value through profit or loss		328	355
Income received from derivative financial instruments		135	8 862
Income received from dealing in foreign currencies		1 269	1 237
Fees and commissions received		4 137	3 490
Fees and commissions paid		(439)	(387)
Other operating income received		1 042	205
Net income received/(expenses incurred) from insurance operations		93	(108)
Income received from non-banking activities		1 261	1 532
Losses incurred from non-banking activities		(2 139)	(1 677)
Administrative and other operating expenses paid		(8 818)	(8 878)
Income tax paid		(786)	(594)
Cash flows from operating activities before changes in operating assets and liabilities		**20 703**	**22 119**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(4 892)	(562)
Net (increase)/decrease in trading securities		(8 825)	817
Net decrease/(increase) in financial instruments designated at fair value through profit or loss		563	(500)
Net decrease/(increase) in due from other banks		23 141	(39 968)
Net increase in loans and advances to customers		(86 970)	(60 034)
Net increase in other assets		(128)	(10 696)
Net increase/(decrease) in due to other banks		10 955	(2 700)
Net (decrease)/increase in customer accounts		(8 153)	196 560
Net increase/(decrease) in promissory notes issued		18 217	(924)
Net increase/(decrease) in other liabilities		3 242	(650)
Net cash (used in)/from operating activities		**(32 147)**	**103 462**
Cash flows from investing activities			
Acquisition of premises and equipment		(1 835)	(347)
Proceeds from disposal of premises and equipment		121	14
Acquisition of intangible assets		(287)	(332)
Acquisition of investment securities available for sale		(30 887)	(72 196)
Proceeds from disposal of investment securities available for sale		38 624	61 798
Proceeds from redemption of investment securities held to maturity		(4 350)	112
Net cash from/(used in) investing activities		**1 386**	**(10 951)**
Cash flows from financing activities			
Issue of ordinary shares	19	5 000	-
Proceeds from bonds issued	9	10 000	-
Repayment of bonds issued		(26 949)	(44 438)
Proceeds from sale of previously bought back bonds issued on domestic market		9 176	11 645
Buy back of bonds issued at or prior to put option date		(21 365)	(15 851)
Proceeds from sale of previously bought back Eurobonds issued		11 323	3 527
Buy back of Eurobonds issued		(10 436)	(7 656)
Amounts paid on perpetual bonds	10	(723)	-
Proceeds from sale of non-controlling interests in consolidated mutual funds		272	-
Payments on disposal of non-controlling interests in consolidated mutual funds		(46)	-
Net cash used in financing activities		**(23 748)**	**(52 773)**
Effect of exchange rate changes on cash and cash equivalents		**(7 351)**	**(3 267)**
Net decrease/(increase) in cash and cash equivalents		**(61 860)**	**36 471**
Cash and cash equivalents at the beginning of the period		326 033	168 232
Cash and cash equivalents at the end of the period		**264 173**	**204 703**

1 Introduction

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") for the three months ended 31 March 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 (72.4% 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 (7.36% 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 (20.24% 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 Closed Joint Stock Company RSHB Insurance (ownership interest of the Bank is 100%), RSHB Capital S.A. (structured entity incorporated for Eurobonds issue for the Bank), Limited Liability Company RSHB Asset Management (ownership interest of the Bank is 100%) and 34 companies and mutual funds operating in agricultural and other industries (ownership interest of the Bank is from 7% to 100%).

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 73 (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 31 March 2017 was 30 141 (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.

The Russian economy continues to show recessionary trend. Economic indicators of the first quarter 2017 reflect maintaining 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.

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.

2 Operating Environment of the Group (Continued)

During the three months ended 31 March 2017, the following were the key changes in selected macro-economic indicators:

- the CBRF exchange rate appreciated from RR 60.6569 to RR 56.3779 per US Dollar;
- the CBRF key rate decreased from 10.0% p.a. to 9.75% p.a.;
- the RTS stock exchange index decreased from 1152.3 to 1113.8.

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 31 March 2017 the principal rates of exchange used for translating foreign currency balances were USD 1 = RR 56.3779 (31 December 2016: USD 1 = RR 60.6569), EUR 1 = RR 60.595 (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.

3 Summary of Significant Accounting Policies (Continued)

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.

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 discloser of the required information in its annual consolidated financial statements for the year ended 31 December 2017.

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 31 March 2017 the Group guarantees all obligations of the consolidated structured entity represented by Eurobonds issued in the amount of RR 258 182 million and subordinated debts in the amount of RR 29 165 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 three months ended 31 March 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

In millions of Russian Roubles	**31 March 2017 (unaudited)**	**31 December 2016**
Loans to legal entities		
- Loans to corporates	1 504 026	1 446 442
- Lending for food interventions	38 423	33 921
- Deals with securities purchased under “reverse repo agreements”	91	-
- Investments in agricultural cooperatives	379	395
Loans to individuals	322 920	327 131
Total loans and advances to customers (before impairment)	**1 865 839**	**1 807 889**
Less: provision for loan impairment	(191 907)	(189 952)
Total loans and advances to customers	**1 673 932**	**1 617 937**

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

As at 31 March 2017, the Group has loans to ten largest borrowers (groups of borrowers) in the total amount of RR 449 620 million (before impairment), or 24% 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:

(Unaudited) *In millions of Russian Roubles*	**For the three months ended 31 March 2017** Loans to corporates	Investments in agricultural cooperatives	Loans to individuals	Total	**For the three months ended 31 March 2016** Loans to corporates	Investments in agricultural cooperatives	Loans to individuals	Total
Provision for loan impairment at 1 January	**176 153**	**49**	**13 750**	**189 952**	**166 293**	**63**	**12 868**	**179 224**
Net provision for loan impairment during the period	10 504	6	1 861	**12 371**	10 660	-	2 350	**13 010**
Provision for loans sold during the period	(7 513)	-	(963)	**(8 476)**	(8 825)	-	(1 498)	**(10 323)**
Loans and advances to customers written off during the period as uncollectible	(2 587)	-	(6)	**(2 593)**	(12 520)	-	(17)	**(12 537)**
Recovery of loans previously written off sold during the period	308	-	-	**308**	76	-	-	**76**
Recovery of loans previously written off	345	-	-	**345**	157	-	-	**157**
Provision for loan impairment at 31 March	**177 210**	**55**	**14 642**	**191 907**	**155 841**	**63**	**13 703**	**169 607**

No provision for “Lending for food interventions” and “Reverse repo agreements” was recorded as at 31 March 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 three months ended 31 March 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 31 March 2017, the amount of all investment securities that have been reclassified from investment securities available for sale during three months ended 31 March 2017 and which were not yet repaid, were as follows:

(Unaudited) *In millions of Russian Roubles*	Amount reclassified	Undiscounted cash flows expected to be recovered	Effective interest rate (%)
Corporate bonds	615	751	9.2-9.3
Municipal and subfederal bonds	6 635	7 373	8.7-10.4
Total investment securities that have been reclassified from available-for-sale category to held-to-maturity category	**7 250**	**8 124**	

7 Due to Other Banks

In millions of Russian Roubles	**31 March 2017 (unaudited)**	**31 December 2016**
Correspondent accounts and overnight placements of other banks	18 483	7 900
Borrowings from other banks with term to maturity:		
- less than 30 days	10 098	3 627
- from 31 to 180 days	16 877	18 109
- from 181 days to 1 year	23	109
- from 1 year to 3 years	689	800
- more than 3 years	18 437	19 114
Borrowings from the CBRF with term to maturity:		
- less than 30 days	75	75
- from 31 to 180 days	3 482	3 910
- from 181 days to 1 year	1 534	2 191
- from 1 year to 3 years	18 586	22 759
Total due to other banks	**88 284**	**78 594**

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

In millions of Russian Roubles	**31 March 2017 (unaudited)**	**31 December 2016**
State and public organisations		
- Current/settlement accounts	10 934	11 476
- Term deposits	236 348	381 482
Other legal entities		
- Current/settlement accounts	134 559	115 026
- Term deposits	519 555	456 752
Individuals		
- Current/demand accounts	53 906	53 402
- Term deposits	607 537	559 629
Total customer accounts	**1 562 839**	**1 577 767**

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

8 Customer Accounts (continued)

Economic sector concentrations within customer accounts are as follows:

In millions of Russian Roubles	31 March 2017 (unaudited) Amount	%	31 December 2016 Amount	%
Individuals	661 443	42	613 031	39
State and public organisations	247 282	16	392 958	25
Financial services and pension funds	158 395	10	145 522	9
Manufacturing	129 057	8	100 843	6
Agriculture	77 324	5	62 338	4
Construction	74 111	5	75 590	5
Insurance	53 526	4	58 479	4
Trading	50 353	3	44 155	3
Other	111 348	7	84 851	5
Total customer accounts	**1 562 839**	**100**	**1 577 767**	**100**

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

In millions of Russian Roubles	31 March 2017 (unaudited)	31 December 2016
Eurobonds issued	258 182	294 941
Bonds issued on domestic market	151 941	160 943
Total bonds issued	**410 123**	**455 884**

As at 31 March 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. for the first seven interest periods.

During three months ended 31 March 2017, the Group repurchased bonds denominated in RR issued on the domestic market in the amount of RR 21 333 million at the put option date.

During three months ended 31 March 2017, the Group re-issued on the domestic market RR 9 177 million of previously bought back bonds maturing from June 2017 to September 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 31 March 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.

In March 2017, the Group accrued amounts due under perpetual bonds in the amount of RR 58 million for the coupon period ending January 2017 and RR 345 million for the coupon period ending April 2017.

11 Interest Income and Expense

(Unaudited) *In millions of Russian Roubles*	**For the three months ended 31 March 2017**	**2016**
Interest income on financial instruments carried at fair value through profit or loss		
Trading securities	703	20
Financial instruments designated at fair value through profit or loss	50	49
Total interest income on financial instruments carried at fair value through profit or loss	**753**	**69**
Interest income on other financial instruments		
Loans and advances to legal entities	35 459	39 027
Loans and advances to individuals	11 708	10 887
Investment securities available for sale including pledged under repurchase agreements	5 148	6 107
Cash equivalents	4 380	2 561
Due from other banks	3 108	2 826
Investment securities held to maturity including pledged under repurchase agreements	256	503
Total interest income on other financial instruments	**60 059**	**61 911**
Total interest income	**60 812**	**61 980**
Interest expense		
Term deposits of legal entities	(21 867)	(18 755)
Term deposits of individuals	(10 889)	(10 862)
Bonds issued	(8 498)	(12 892)
Subordinated debts	(2 343)	(3 930)
Current/settlement accounts	(728)	(324)
Promissory notes issued	(694)	(351)
Term deposits of the CBRF	(547)	(1 214)
Term deposits of other banks	(416)	(303)
Total interest expense	**(45 982)**	**(48 631)**
Net interest income	**14 830**	**13 349**

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

12 Fee and Commission Income and Expense

(Unaudited) *In millions of Russian Roubles*	**For the three months ended 31 March** **2017**	 **2016**
Fee and commission income		
Commission on cash and settlements transactions	2 179	1 858
Fees for sale of insurance contracts	1 003	560
Commission on guarantees issued	661	635
Commission on banking cards	210	147
Fees for currency control	49	48
Other	756	376
Total fee and commission income	**4 858**	**3 624**
Fee and commission expense		
Commission on settlement transactions	(206)	(198)
Commission on cash collection	(118)	(79)
Other	(116)	(110)
Total fee and commission expense	**(440)**	**(387)**
Net fee and commission income	**4 418**	**3 237**

13 Gains less Losses from Non-banking Activities

(Unaudited) *In millions of Russian Roubles*	**For the three months ended 31 March** **2017**	 **2016**
Sales of goods	1 674	1 320
Cost of goods sold	(1 628)	(1 386)
(Provision)/recovery of provision for impairment for trade receivables, prepayments and other financial assets	(41)	65
Net income from insurance operations	713	430
Other non-banking income	464	242
Other non-banking expenses	(427)	(458)
Total gains less losses from non-banking activities	**755**	**213**

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

13 Gains less Losses from Non-banking Activities (Continued)

Net income from insurance operations is as follows:

(Unaudited) *In millions of Russian Roubles*	For the three months ended 31 March 2017	 2016
Insurance premiums		
Premium earned	873	764
Reinsurers share in premiums earned	(212)	(276)
Net insurance premiums earned	**661**	**488**
Insurance benefits and claims		
Net claims incurred during the period	(102)	91
Acquisition costs	(109)	(149)
Reinsurers share in claims incurred during the period	263	-
Net insurance benefits and claims	**52**	**(58)**
Net income from insurance operations	**713**	**430**

14 Significant Risk Concentrations

As at 31 March 2017, correspondent accounts and deposits with other banks with original maturities less than one month within cash and cash equivalents included balances 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 16 913 million, or 6% of total cash and cash equivalents (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 31 March 2017, cash and cash equivalents included the balances with CBRF in the total amount of RR 109 048 million, or 41% of total cash and cash equivalents (31 December 2016: RR 128 335 million, or 39% of total cash and cash equivalents).

As at 31 March 2017, due from other banks included no balances with other banks individually above 10% of the Group's equity (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 31 March 2017, due from other banks included the balance with two foreign banks with ratings at Caa2 (Moody's) and B- (S&P), in aggregate above 10% of the Group's equity, in the amount of RR 16 967 million, or 52% of total due from other banks.

As at 31 March 2017, due to other banks included balances with CBRF above 10% of the Group's equity in the amount of RR 23 677 million, or 27% 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 28 935 million, or 37% of total due to other banks).

As at 31 March 2017, 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 16 702 million, or 19% of total due to other banks. As at 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 31 March 2017, customer accounts included balances with eight 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 394 275 million, or 25% 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.

As at 31 March 2016, Saint-Petersburg branch previously being a part of North-West federal district was displayed as a separate reportable segment because it meet the criteria of defining it as a separate reportable segment. During the year 2016, Saint-Petersburg branch failed to meet the criteria of defining it as a separate reportable segment and was included back into North-West federal district. The presentation of the comparative figures for the three months ended 31 March 2016 has been adjusted to be consistent with the new presentation.

15 Segment Analysis (Continued)

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

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**
For the three months ended 31 March 2017 (unaudited)										
Revenue from external customers	**14 630**	**18 012**	**1 768**	**11 074**	**4 126**	**2 684**	**4 604**	**1 958**	**8 086**	**66 942**
- Interest income from loans and advances to customers, due from other banks and other placed funds	13 876	16 587	1 533	10 112	3 698	2 320	4 017	1 800	7 568	61 511
- Net fee and commission income from credit related operations	754	1 425	235	962	428	364	587	158	518	5 431
Gains less losses/(losses net of gains) arising from securities, derivative financial instruments and foreign currency	11 736	(6 259)	234	497	(411)	191	215	(1 717)	(1 361)	3 125
Interest expenses from due to other banks, customer accounts and bonds issued	(29 468)	(5 404)	(1 245)	(3 693)	(2 246)	(728)	(1 763)	(877)	(1 391)	(46 815)
(Provision)/recovery of provision for impairment*	(2 894)	1 763	418	(57)	681	(1 884)	408	(163)	3 269	1 541
Administrative and maintenance expense	(7 833)	(497)	(142)	(416)	(169)	(175)	(294)	(94)	(192)	(9 812)
- Including depreciation charge	(290)	(71)	(16)	(54)	(25)	(31)	(47)	(12)	(23)	(569)
Other expenses less other income*	(734)	(3 523)	(575)	(429)	(2 571)	(741)	(1 624)	(1)	(3 829)	(14 027)
Current income tax expense	(387)	-	-	-	-	-	-	-	-	(387)
Intersegment income/(expense)**	**19 555**	**(4 370)**	**(349)**	**(5 858)**	**(908)**	**(2 128)**	**(2 529)**	**1 106**	**(4 519)**	**-**
(Loss)/profit of reportable segments	**(14 950)**	**4 092**	**458**	**6 976**	**(590)**	**(653)**	**1 546**	**(894)**	**4 582**	**567**

* 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
For the three months ended 31 March 2016 (unaudited)										
Revenue from external customers	**13 527**	**17 768**	**1 975**	**11 615**	**5 185**	**3 064**	**4 967**	**1 962**	**6 781**	**66 844**
- Interest income from loans and advances to customers, due from other banks and other placed funds	13 308	16 233	1 795	10 878	4 794	2 754	4 480	1 853	6 360	62 455
- Net fee and commission income from credit related operations	219	1 535	180	737	391	310	487	109	421	4 389
Gains less losses/(losses net of gains) arising from securities, derivative financial instruments and foreign currency	15 692	(10 541)	181	233	(82)	173	117	(1 835)	(1 761)	2 177
Interest expenses from due to other banks, customer accounts and bonds issued	(30 938)	(5 709)	(1 378)	(3 488)	(2 268)	(816)	(1 573)	(766)	(1 524)	(48 460)
Recovery of provision/(provision) for impairment*	18	(310)	(145)	5 980	2 702	(150)	(386)	(11)	(992)	6 706
Administrative and maintenance expense	(7 282)	(471)	(131)	(386)	(156)	(172)	(266)	(85)	(171)	(9 120)
- Including depreciation charge	(275)	(78)	(19)	(64)	(27)	(35)	(52)	(12)	(27)	(589)
Other expenses less other income*	(552)	(907)	(30)	(7 999)	(2 429)	(703)	(126)	(132)	(646)	(13 524)
Current income tax expense	(325)	-	-	-	-	-	-	-	-	(325)
Intersegment income/(expense)**	**10 649**	**123**	**(305)**	**(5 648)**	**(1 924)**	**(2 128)**	**1 234**	**1 099**	**(3 100)**	**-**
(Loss)/profit of reportable segments	**(9 860)**	**(170)**	**472**	**5 955**	**2 952**	**1 396**	**2 733**	**(867)**	**1 687**	**4 298**
Total assets										
31 March 2017 (unaudited)	1 657 332	661 003	93 526	382 458	179 753	122 407	171 794	86 916	283 538	3 638 727
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)

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

(Unaudited) *In millions of Russian Roubles*	For the three months ended 31 March 2017	2016
Total profit/(loss) of reportable segments (after tax)	**567**	**4 298**
Adjustments of provision for impairment	1 672	(9 732)
Results of non-reportable segments, including the effect of consolidation*	(1 644)	787
Accounting for financial instruments at fair value	(5 171)	1 026
Adjustment of deferred tax	753	950
(Losses less gains)/gains less losses from revaluation of other financial instruments at fair value through profit or loss	56	36
Adjustment of accrued staff costs	193	(713)
Adjustments of financial assets and liabilities carried at amortised cost	1 384	(278)
Other	(1 719)	(397)
The Group's loss under IFRS (after tax)	**(3 909)**	**(4 023)**

* 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 31 March 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 three months ended 31 March 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 31 March 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 31 March 2017, the Group has contractual capital expenditure commitments of RR 439 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:

In millions of Russian Roubles	**31 March 2017 (unaudited)**	**31 December 2016**
Not later than 1 year	4 811	5 281
Later than 1 year and not later than 5 years	3 921	4 701
Later than 5 years	1 446	1 067
Total operating lease commitments	**10 178**	**11 049**

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:

In millions of Russian Roubles	**31 March 2017 (unaudited)**	**31 December 2016**
Financial guarantees issued	152 873	105 257
Undrawn credit lines	128 017	117 963
Letters of credit	6 483	7 014
Less: provision for impairment	(315)	(339)
Total credit related commitments	**287 058**	**229 895**

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

(Unaudited) *In millions of Russian Roubles*	**For the three months ended 31 March 2017**	**For the three months ended 31 March 2016**
Provision for impairment at 1 January	**339**	**100**
(Recovery of provision)/provision for impairment for credit related commitments during the period	(24)	37
Provision for impairment at 31 March	**315**	**137**

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 31 March 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:

In millions of Russian Roubles	**31 March 2017 (unaudited)**	**31 December 2016**
Russian Roubles	224 245	222 046
Euros	54 700	6 054
US Dollars	8 113	1 795
Total credit related commitments	**287 058**	**229 895**

16 Contingencies and Commitments (Continued)

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

In millions of Russian Roubles	**31 March 2017 (unaudited)**	**31 December 2016**
Assets pledged under loan agreements with banks (including CBRF)	27 305	28 469
Security deposit under the lease agreement	202	202

As at 31 March 2017, mandatory cash balances with the CBRF of RR 16 159 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 31 March 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 31 March 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 May 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 31 March 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 31 March 2017 and covers the contracts with settlement dates after the respective end of the reporting period:

(Unaudited) *In millions of Russian Roubles*	**Principal or agreed amount at fair value of assets receivable**	**Principal or agreed amount at fair value of assets payable**	**Positive fair value**	**Negative fair value**
Forwards and swaps				
- Currency	295 395	(192 299)	106 232	(3 136)
- Precious metals	68	(68)	-	-
- Interest rate	1 022	(961)	493	(432)
Contracts with securities	3 311	(3 312)	1	(2)
Futures				
- Currency	115	(115)	-	-
- Commodity	385	(386)	-	(1)
Total derivative financial instruments	**300 296**	**(197 141)**	**106 726**	**(3 571)**

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:

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

As at 31 March 2017, the Group had two foreign exchange swaps with two foreign banks with rating not lower than BB- (S&P) with fair value each individually above 10% of the Group's equity (31 December 2016: three foreign exchange swaps with two foreign banks and one Russian banking group with rating not lower than BB- (S&P) with fair value each individually above 10% of the Group's equity). As at 31 March 2017, receivables and payables on settlement of these foreign exchange swaps amounted to RR 114 419 million and RR 53 115 million, respectively, or 55% of total receivables or 50% 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

In millions of Russian Roubles	31 March 2017 (unaudited) Carrying amount	Fair value	31 December 2016 Carrying amount	Fair value
Financial assets carried at amortised cost				
Cash and cash equivalents	264 173	264 173	326 033	326 033
Mandatory cash balances with the CBRF	16 159	16 159	11 266	11 266
Due from other banks	32 942	32 911	55 491	55 448
Loans and advances to customers				
- Loans to corporates	1 326 816	1 314 805	1 270 289	1 261 375
- Lending for food interventions	38 423	38 423	33 921	33 921
- Reverse repo agreements	91	91	-	-
- Investments in agricultural cooperatives	324	324	346	346
- Loans to individuals	308 278	305 663	313 381	326 406
Investment securities held to maturity including pledged under repurchase agreements				
- Corporate bonds	8 710	8 492	7 975	7 745
- Municipal and subfederal bonds	8 569	8 560	1 501	1 515
- Federal Loan bonds (OFZ)	2 121	1 979	2 154	1 967
Other financial assets	11 057	11 057	10 258	10 258
Total financial assets carried at amortised cost	**2 017 663**	**2 002 637**	**2 032 615**	**2 036 280**
Financial assets carried at fair value	**361 383**	**361 383**	**379 885**	**379 885**
Total financial assets	**2 379 046**	**2 364 020**	**2 412 500**	**2 416 165**
Financial liabilities carried at amortised cost				
Due to other banks				
- Term borrowings from other banks	46 124	48 136	41 759	44 346
- Term borrowings from the CBRF	23 677	23 371	28 935	28 421
- Correspondent accounts and overnight placements of other banks	18 483	18 483	7 900	7 900
Customer accounts				
- State and public organisations	247 282	247 540	392 958	393 134
- Other legal entities	654 114	655 148	571 778	573 084
- Individuals	661 443	660 735	613 031	612 192
Promissory notes issued	31 635	31 635	13 761	13 761
Bonds issued				
- Eurobonds issued	258 182	265 015	294 941	303 058
- Bonds issued on domestic market	151 941	155 079	160 943	165 056
Other financial liabilities	8 293	8 293	4 885	4 885
Total financial liabilities carried at amortised cost before subordinated debts	**2 101 174**	**2 113 435**	**2 130 891**	**2 145 837**
Subordinated debts	146 602	153 332	153 124	158 940
Total financial liabilities carried at amortised cost	**2 247 776**	**2 266 767**	**2 284 015**	**2 304 777**
Financial liabilities carried at fair value	**3 571**	**3 571**	**1 053**	**1 053**
Total financial liabilities	**2 251 347**	**2 270 338**	**2 285 068**	**2 305 830**

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 31 March 2017 is as follows:

(Unaudited) *In millions of Russian Roubles*	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique with non-observable inputs (Level 3)**	**Total**
Assets measured at fair value				
Trading securities	33 727	-	-	33 727
Financial instruments designated at fair value through profit or loss	-	1 904	-	1 904
Investment securities available for sale	178 746	40 280	-	219 026
Derivative financial instruments	-	106 726	-	106 726
Office premises	-	-	7 194	7 194
Assets for which fair values are disclosed				
Cash and cash equivalents	-	264 173	-	264 173
Mandatory cash balances with the CBRF	-	-	16 159	16 159
Due from other banks	-	32 911	-	32 911
Loans and advances to customers	-	-	1 698 657	1 698 657
Investment securities held to maturity	18 469	562	-	19 031
Other financial assets carried at amortised cost	-	-	11 057	11 057
Total financial and non-financial assets	**230 942**	**446 556**	**1 733 067**	**2 410 565**
Liabilities measured at fair value				
Derivative financial instruments	-	3 571	-	3 571
Liabilities for which fair values are disclosed				
Due to other banks	-	89 990	-	89 990
Customer accounts	-	-	1 563 423	1 563 423
Promissory notes issued	-	-	31 635	31 635
Bonds issued				
- Eurobonds issued	265 015	-	-	265 015
- Bonds issued on domestic market	148 860	6 219	-	155 079
Other financial liabilities	-	-	8 293	8 293
Total financial liabilities before subordinated debts	**413 875**	**99 780**	**1 603 351**	**2 117 006**
Subordinated debts	38 868	114 464	-	153 332
Total financial liabilities	**452 743**	**214 244**	**1 603 351**	**2 270 338**

18 Fair Value of Financial Instruments (Continued)

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

In millions of Russian Roubles	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with non-observable inputs (Level 3)	Total
Assets measured at fair value				
Trading securities	25 040	-	-	25 040
Financial instruments designated at fair value through profit or loss	-	2 374	-	2 374
Investment securities available for sale, including investment securities available for sale pledged under repurchase agreements	188 323	44 086	-	232 409
Derivative financial instruments	-	120 062	-	120 062
Office premises	-	-	7 415	7 415
Assets for which fair values are disclosed				
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, including securities held to maturity pledged under repurchase agreements	8 282	2 945	-	11 227
Other financial assets carried at amortised cost	-	-	10 258	10 258
Total financial and non-financial assets	**221 645**	**550 948**	**1 650 987**	**2 423 580**
Liabilities measured at fair value				
Derivative financial instruments	-	1 053	-	1 053
Liabilities for which fair values are disclosed				
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
Total financial liabilities before subordinated debts	**462 634**	**87 200**	**1 597 056**	**2 146 890**
Subordinated debts	39 045	119 895	-	158 940
Total financial liabilities	**501 679**	**207 095**	**1 597 056**	**2 305 830**

There were no financial instruments carried at fair value based on a valuation technique with non-observable inputs (Level 3) as at 31 March 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 three months ended 31 March 2017:

(Unaudited) *In millions of Russian Roubles*	**Transfers between Level 1 and Level 2** **From Level 1 to Level 2**	 **From Level 2 to Level 1**
Financial assets		
Investment securities available for sale, including investment securities available for sale pledged under repurchase agreements	1 709	881
Total transfers of financial assets	**1 709**	**881**

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**
Financial assets		
Investment securities available for sale, including investment securities available for sale pledged under repurchase agreements	2 226	48 094
Total transfers of financial assets	**2 226**	**48 094**

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

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

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

18 Fair Value of Financial Instruments (Continued)

The following table shows the quantitative information as at 31 March 2017 about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

Assets	**Fair value,** *in millions of Russian Roubles*	Valuation technique	Inputs used		
			Input	**Min**	**Max**
Office premises (based on valuation at 31 December 2015, fair value of new objects acquired in 2016 and 2017 equals to current value)	7 194	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,** *in millions of 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 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.

19 Related Party Transactions (Continued)

The outstanding balances with related parties were as follows:

In millions of Russian Roubles	**31 March 2017 (unaudited)**	**31 December 2016**
Cash and cash equivalents		
CBRF	109 048	128 335
Other banks	90 328	110 097
Loans and advances to customers		
Loans and advances to customers (before impairment)	81 296	59 782
Less: provision for loan impairment	(3 378)	(2 961)
Derivative financial instruments — assets	14 665	17 145
Securities		
Securities issued by Russian Federation	159 247	148 091
Securities of entities and banks	45 639	50 584
Due from other banks	3 622	28 510
Other assets		
State Corporation Deposit Insurance Agency	7 237	5 884
Accrued subsidies under the government programs to subsidize lending	557	432
Customer accounts		
Entities	388 145	508 515
Key management and their family members	1 756	1 565
Due to other banks		
CBRF	23 677	28 935
Other banks	23 981	13 286
Derivative financial instruments — liabilities	178	100
Subordinated debts	66 327	70 524
Credit related commitments		
Undrawn credit lines	75 447	71 133
Financial guarantees issued	9 270	9 044
Financial guarantees received	20 166	22 721

19 Related Party Transactions (Continued)

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

(Unaudited) *In millions of Russian Roubles*	**For the three months ended 31 March** **2017**	**2016**
Interest income on cash and cash equivalents		
CBRF	3 420	523
Other banks	2 315	1 958
Interest income on due from other banks	417	616
Interest income on loans and advances to customers	3 488	2 905
Interest income on securities		
Securities issued by Russian Federation	3 690	3 161
Securities of entities and banks	763	1 055
Gains less losses/(losses net of gains) from securities		
Securities issued by Russian Federation	269	535
Securities of entities and banks	95	(217)
Losses net of gains from derivative financial instruments	(881)	(903)
Interest expense on customer accounts		
Entities	(12 776)	(11 687)
Key management and their family members	(25)	(23)
Interest expense on subordinated debts	(984)	(1 230)
Interest expense on due to other banks		
CBRF	(547)	(1 214)
Other banks	(705)	(132)
Other operating income		
Subsidies under the government programs to subsidize lending	192	404
Administrative and other operating expenses		
Payments to the Deposit Insurance Fund (SC DIA)	(718)	(457)

During three months ended 31 March 2017, transactions with the shareholder included share capital increase, taxes paid and subsidies received under the government programs to subsidize lending.

19 Related Party Transactions (Continued)

During three months ended 31 March 2017, the Bank increased its share capital by issuing 5 000 ordinary shares with the total nominal amount of RR 5 000 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.

Key management of the Group represents members of the Supervisory Board, the Management Board and Chief Accountant of the Bank. For the three months ended 31 March 2017 total remuneration of the key management amounted to RR 77 million (for the three months ended 31 March 2016: RR 87 million).

20 Events after the End of the Reporting Period

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 May 2017, the CBRF key rate decreased from 9.75% p.a. to 9.25% p.a.